5 MAY 1983

MEMORANDUM FOR: Chief, Audit Staff

VIA: Chief, AS&T Audit Division

SUBJECT: OPM Audit Report E-83-001-Ex.3, 18 Feb 1983, FEHBP Joseph E. Jones Agency Administrator

1. I have reviewed the audit report, the rebuttal from Mutual of Omaha and the copies of the GEHA contracts with OPM. The report was also discussed with [redacted] Chief, Insurance Branch, O/Pers by telephone on 5 May 1983. STAT

2. The OPM audit report contains ten recommendations concerning administrative expenses and two concerning claims processing. Nine of the ten administrative expense recommendations are valid; the administrator has accepted seven of them although in two cases his computations are different from the auditors. The tenth audit finding concerning budgetary controls and an annual independent audit of the Jones Agency records appears invalid as this requirement should be written into the contract to be enforceable. The two recommendations concerning claims processing transcend my knowledge of claims however, I am against the changes as a GEHA member and believe they are negotiable with OPM. The administrator does not agree with the two recommendations.

3. The three administrative expense recommendations not accepted by the administrator involve $120,700 of the total questioned costs of $122,468 for GEHA. These findings were:

a. The Jones Agency improperly charged management fees to the contract.

b. Officers salaries were recorded as direct charges to the contract rather than charges to overhead.

c. The adjustments to costs by OPM auditors for a & b above resulted in adjustments to overhead charges of $30,038; the Jones Agency computed overhead adjustments of about $400.

Approved For Release 2006/02/10 : CIA-RDP86-00964R000200090001-6

STAT 4. [redacted] told me that a copy of the report and related materials has been given to an attorney, [redacted] STAT
STAT [redacted] for review and comment. The three other health organizations reviewed during this audit have authorized OPM to negotiate a settlement with the Jones Agency. GEHA may do the same depending upon the attorney's advise.

5. The negotiator, usually the contracting officer, is not bound by the auditors findings. While they should be considered during the negotiations the contracting officer is the final authority on the settlement terms.

[redacted] STAT

8 Apr 83 – Discussed with Ben. Agreed to provide copy [redacted] for advice. Also decided to task Audit Staff ~~to~~ take a look from viewpoint of what might be an appropriate amount to charge for "management fee".

STAT

STAT

I discussed with [redacted] afternoon of 8 Apr. His preliminary thought was to let other 3 organizations pursue the issue along with James and abide by the outcome. Told [redacted] I would send him copy of audit and of our contract with OPM.

STAT

STAT

12 Apr – Copy of audit and OPM contract sent to [redacted]

STAT

[redacted] advised me he had given copy to C/Audit Staff who said it would take them week or more to go over.

16 Feb 84 - Called Harris Havard again re resolution of audit. Havard said OPM's OGC has held that the contested management fee is a legitimate charge but OPM's audit staff continues to drag their feet. Said Mutual's lawyer Dr. Katar had written to Kevin Burns re this. I asked for copies of correspondence and Harris said he would send same.

Speed-Memo *Date* February 23, 1984

Subject:

Bill -

Attached are letters from Irving Kator to OPM for your review.

Harris

TO

JOSEPH E. JONES AGENCY
MUTUAL & UNITED OF OMAHA
1666 Connecticut Avenue
Washington, D. C. 20009
Telephone 797-6700

LAW OFFICES
KATOR, SCOTT & HELLER
CHARTERED
SUITE 900
1029 VERMONT AVENUE, N. W.
WASHINGTON, D. C. 20005
(202) 393-3800

February 3, 1984

Kevin Burns
Assistant Director for Insurance Programs
Employee Organization Plans
P.O. Box 707
Washington, D.C. 20044

Re: Audit Report No:E-8300-1
Joseph E. Jones Agency

Dear Mr. Burns:

We had no response from you with respect to the above-captioned matter. If there is additional information you feel is necessary, please let me know and we will be glad to provide it. Otherwise, we would appreciate it if we could hear from you with respect to your determination on our response to the audit exceptions.

As indicated in our previous correspondence, and for the reasons stated therein, we believe that the exceptions have not been taken properly and we request that you so determine. For your information, I am enclosing a copy of our last letter on this subject to you.

Sincerely,

Irving Kator

IK:ld
Enclosure

KATOR, SCOTT & HELLER
SUITE 900
1529 VERMONT AVENUE, N.W.
WASHINGTON, D.C. 20005
(202) 393-3900

September 26, 1983

HAND-DELIVERED

Kevin J. Burns
Assistant Director for
Insurance Programs
Office of Personnel Management
1900 E Street, N.W.
Washington, D.C. 20415

Re: Joseph E. Jones Agency

Dear Mr. Burns:

As I had previously indicated to you, I have taken a closer look at the legal issues raised by the 1983 Audit Report challenging the managment fee charged by the Jones Agency. After doing so, I remain convinced that there is no legitimate legal basis for disallowing the fee.

As an initial matter, it must be stressed that the Audit report does not challenge the reasonableness of the charge; rather it merely suggests that, however reasonable, such charges are not legally compensable. As we understand it, however, OPM's General Counsel has already resolved the question of the legality of such management fee. And, since that office has determined that the management fee is an allowable cost under the FEHBP, it would seem that the matter should be deemed closed and the fee allowed.

Additionally, it is significant that the issue of the management fee is the identical question raised in an earlier audit challenging the fee for the 1974 and 1975 contract years. By letter dated February 5, 1981, the Jones Agency was advised by OPM that "[A]fter review and discussion we have decided to accept the management fees for the two years in question as reasonable charges against the contract." It is well established that when the government is advised of the contractor's interpretation of a contract and the government accepts this interpretation, it is bound by that interpretation. Appeal of Astro Dynamics, Inc., NASA BCA 1067-38, 74-1 BCA 10634 (1974); Appeal of American Electric, Inc., ASBCA 16635, 76-2 BCA 12151 (1976). Here, the government not only acquiesced in an interpretation of a contract provision, but it affirmatively approved of a charge based on the proffered interpretation. In such circumstances, reliance upon that interpretation by the Jones Agency was clearly reasonable and the government is surely estopped from suggesting otherwise or from penalizing the agency for acting on the basis of that interpretation. See Penn-Ohio Steel Corp. v. United States, 96 Ct. Cl. 1064, 1093-39 (1965); Appeal of Covington Industries, ASBCA 12426, 68 BCA-2 7286 (1968). Thus, by accepting the management fee for the years 1974 and 1975, OPM cannot now come back and challenge the fees for subsequent years. The Jones Agency is entitled to rely upon OPM's acquiescence at least until such time as OPM provides formal notice that it no longer concurs with Jones' interpretation of the contract.

A case posing virtually the identical facts was recently decided by the Armed Services Board of Contract Appeals. In Appeal of Blue Cross Association and Blue Cross of Virginia, ASBCA 25776, 81-2 BCA 15,359 (1982), the Board of Contract Appeals held:

> During the period 1971 through 1973 [the contractor] used the identical allocation method now in dispute. The government audit report for those years * * * took no exception to any of the amounts claimed . . . for those years.
>
> * * * * *
>
> Therefore the Government audit acceptance of the computation and allocation methods for calendar year 1973 represented not only a contemporaneous interpretation of the substantially identical provision existing prior to the 1973 contract, but also an interpretation of the operative provisions of the 1973 contract itself.

As can be seen, the Board of Contract Appeals held that not only was the government estopped from challenging the computation and allocation method in issue, having previously indicated it acceptance thereof, but further the government's previous acceptance of the method represented a construction of how the contract was intended to operate in the future. Just as the government, having previously acquiesced, could not come back and challenge an allocation in the Blue Cross case, so too is OPM bound by its previous acceptance of the management fee in this matter. Indeed, the case here is stronger, since the OPM approbation of the charge comes not only from passive acquiescence, but additionally, from an affirmative allowance of the identical fee.

For these reasons we strongly urge OPM to allow the management fee charged by the Jones Agency. Foremost, the Audit Report challenges only the legality of the management fee, and this issue has been decisively resolved in our favor by OPM's General Counsel. Beyond this, OPM should be estopped from challenging retroactively the propriety of the fee, since it previously indicated acceptance of it.

I am hopeful that this letter will resolve any remaining questions you may have. Since the audit has already extended beyond the ninety-day limit imposed by Pub. L. No 96-304, I am also hopeful that we will be able finally to settle this matter soon.

Please contact me at your earliest convenience so that we may discuss any remaining questions.

Very truly yours,

Irving Kator

Irving Kator

IK:nbi

Mutual of Omaha®

People you can count on...

Life Insurance Affiliate:
United of Omaha

JOSEPH E. JONES AGENCY
1666 CONNECTICUT AVE. NW
WASHINGTON, DC 20009

STAT

G. E. H. A.

PERSONAL PLEASE

Approved For Release 2006/02/10 : CIA-RDP86-00964R000200090001-6

 83-1282

Government Employees
• Health Association •

Post Office Box 463
Washington, D.C. 20044

Office of the
President

11 MAY 1983

Mr. Kevin J. Burns
Assistant Director for Insurance Programs
Office of Personnel Management
Washington, D.C. 20415

Dear Mr. Burns:

I have received copies of the Office of Personnel Management's audit report on the Joseph E. Jones Agency. In the cover letter accompanying the report, you stated that all outstanding audit findings must be resolved within six months of the date the audit is issued.

I understand that you have had discussions with representatives of the Joseph E. Jones Agency in an effort to resolve the outstanding audit findings relating to the other federal health plans administered by the Jones Agency. Because the same basic issues are involved in the audits of the other plans, we request that you expand the scope of your discussions with the Jones Agency to include the outstanding findings relative to our contract. This will ensure uniformity in applying the final findings to the various plans.

We would like the opportunity to review the situation again after you have completed negotiations with the Jones Agency and have made a final determination with respect to the outstanding findings.

Sincerely,

[redacted]

STAT

DISTRIBUTION:
Original - Addressee
1 - DD/Pers
1 - C/BSD
1 - C/IB

STAT DD/Pers/SP/[redacted] 10 May 1983

MEMORANDUM FOR:

Date

FORM USE PREVIOUS

GPO : 1981 O - 345-783

[illegible] DD/Exec, 8 Apr 83

1 Discuss with [redacted] STAT

[redacted] STAT

2 Ask opinion of
Our Audit Staff.

FECA

ROUTING AND TRANSMITTAL SLIP

Date 18 May 1983

TO: (Name, office symbol, room number, building, Agency/Post)	Initials	Date
1. DC/BSD	[redacted]	5/19/83
2. C/BSD		5/19
3. DD/Pers/SP		20
4.		
5. C/BSD		

STAT

	Action		File		Note and Return
	Approval		For Clearance		Per Conversation
	As Requested		For Correction		Prepare Reply
	Circulate		For Your Information		See Me
	Comment		Investigate		Signature
	Coordination		Justify		

REMARKS

FYI, attached is a copy of response we got from the Audit Staff on their review of OPM's report on the Jones Agency.

[redacted]

STAT

DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions

FROM: (Name, org. symbol, Agency/Post)	Room No.—Bldg.
[redacted]	915 Ames
Chief, Insurance Branch	Phone No. [redacted]

STAT

STAT

5041-102

OPTIONAL FORM 41 (Rev. 7-76)
Prescribed by GSA
FPMR (41 CFR) 101-11.206

☆ GPO : 1981 O - 341-529 (120)

ROUTING AND TRANSMITTAL SLIP Date 7 APR 1983

TO: (Name, office symbol, room number, building, Agency/Post)	Initials	Date
1. DD/Pers/SP	[redacted]	4/7
2.		
3. DD/Pers		
4.		
5.		

	Action		File		Note and Return
	Approval		For Clearance		Per Conversation
	As Requested		For Correction		Prepare Reply
	Circulate		For Your Information		See Me
	Comment		Investigate		Signature
	Coordination		Justify		

REMARKS

DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions

FROM: (Name, org. symbol, Agency/Post)	Room No.—Bldg.
[redacted]	5E 56
	Phone No. [redacted]

STAT

STAT

STAT

5041-102 OPTIONAL FORM 41 (Rev. 7-76)
Prescribed by GSA
FPMR (41 CFR) 101-11.206

☆ GPO : 1981 O - 361-529 (148)

7 March 1983

NOTE FOR: DD/Pers

Attached is a letter from OPM transmitting their audit report of the Jones-Agency for the years 1976 through 1980. [redacted] STAT acknowledged receipt of the report by telephone, advising them that although the letter is dated 15 March, he did not receive it until 1 April). The audit involves all of Jones' FEHBP activity, not just our plan, and therefore has us facing the same issue as does the National Alliance of Postal and Federal Employees, the American Foreign Service Protective Association, and the American Federation of Government Employees. A number of issues have been raised in the audit. The Jones Agency has concurred in the audit findings of most of them - on two they are still in disagreement. They are: the allowing of management fees as an administrative expense, and the method of charging officers' salaries. The former is by far the most significant sum totalling \$541,673 for all years for all plans, and \$82,427 for ABP alone. The Audit Report and attachments make the case for both sides. Jones has his attorney (Irv. Kater) working on the matter and wants our OK for them to deal directly with OPM. You may wish to get a legal opinion on that, but it seems a little academic at this point since they have been dealing with each other for over 2 years on this audit. (Note that OPM sent a draft to Jones dated 16 March 1982 and Jones responded to OPM on 11 June 1982).

It appears to me that somehow we have to determine the position the other 3 organizations are taking and work together. I see the major issue as: "Is the charging of a management fee an allowable expense or not?" Great legal minds are already working on that at OPM and at the Jones Agency. I don't know what we would do if we, the AFGE, AFSPA, and NAPFE are not in agreement.

I also think we need to reassess GEHA's relationship with OPM. Their letter says we are the prime contractor and it is up to us to resolve the contested points of the audit. While this has always been fact, it has not been practice. We have in the past relied on OPM to verify the accuracy of the annual accounting statement. OPM is now suggesting that an independent auditor be employed by us in the future to satisfy ourselves as to the accuracy and appropriateness of those statements. In view of OPM's position with respect to this audit, and the fact that years elapse before they perform their audits, it might be a good idea for us to hire an auditor. However, there is then the possibility that our auditor and the Jones Agency have irreconcilable differences, or we could rely on our auditor's OK only to find out 5 years later that this is at odds with OPM's audit staff. One thing is clear, auditing on a more current basis would certainly help.

STAT

Attachment

4 April 1983

NOTE FOR: Deputy Director of Personnel

STAT

FROM:
Chief, Insurance Branch

STAT

1. Attached is a letter from OPM transmitting their recently concluded audit report of the Jones' Agency. Although the letter is dated 15 March, we did not receive it until 1 April. I have provided acknowledgement of our receipt to Kevin Burns' office via telephone advising them of late receipt. We have not had a chance to review this in depth, but thought you should be aware of its existence.

2. I have talked to Harris Havard about the report and he advises they also just received it. The report has been turned over to their lawyer. Harris stated that a number of the recommendations have been or are being resolved. However, the issue of the "management fees" assessed by Jones still is under contention. (Naturally, this is the issue involving the most money.) Harris also indicated they will get back to us with their recommendation for handling the response to OPM. His initial thought was that perhaps Jones and Mutual should deal directly with OPM. I think we need such input to determine what part, if any, we should be playing in this matter.

3. I told Harris we would wait for him to get back in touch before we took any action. In the interim, we will review the attached and prepare a summary of the recommendations and required actions for use in possible further discussion with Jones and OPM.

STAT

Attachment

Approved For Release 2006/02/10 : CIA-RDP86-00964R000200090001-6

United States
Office of Personnel Management

Washington, D.C. 20415

MAR 15 1983

In Reply Refer To:
CN

Your Reference:

STAT [redacted]

STAT [redacted]

Enclosed are four copies of the Office of Personnel Management's audit report No. E-83-001-Ex. 3, dated February 18, 1983, on your third party administrator, the Joseph E. Jones Agency. This audit was conducted by representatives of the Office of the Inspector General pursuant to Contract No. 1065, 5 CFR Chapter 1 Part 890 and 41 CFR Chapter 1.

I would appreciate an acknowledgement of your receipt of this report within 10 days.

This audit is one of four companion audits which examined the entire Federal Employees Health Benefit business of the Joseph E. Jones Agency for the years 1976 through 1980. Separate audit reports detailing findings relative to their plans are being concurrently sent to the following:

National Alliance of Postal and Federal Employees
American Foreign Service Protective Association
American Federation of Government Employees

The Government performed the audit of Joseph E. Jones' entire book of FEHBP business for reasons of efficiency and to ensure consistency in the audit process and uniformity in applying the findings to the various prime contractors. However, in resolving the findings the contracting officer may deal only with those parties with whom he has a contractual relationship, i.e. the prime contractor. As the prime contractor you are responsible for resolving the findings relative to your contract which are contained in the enclosed audit report.

While the Government will be looking to you to resolve the findings relative to your contract it should be pointed out that the same basic issues are repeated in the other audits - only the amount of the dollar findings vary because of the differences in the plans' sizes. Because of the similarity of issues and the fact that they all involve one subcontractor, Mr. Larry Keck of Mutual of Omaha which has purchased the Joseph E. Jones Agency has agreed to act as the subcontractor's coordinator in resolving this series of audits.

Public Law 96-304 requires us to resolve all outstanding findings within six months of the date the audit is issued or August 17, 1983 in this instance. Please submit your comments, if any, within 45 days from receipt of this report.

Sincerely yours,

Kevin J. Burns

Kevin J. Burns
Assistant Director
for Insurance Programs

United States
Office of Personnel Management

Washington, D.C. 20415

In Reply Refer To

Your Reference:

EXHIBIT 3

AUDIT REPORT

Federal Employees Health Benefits Program
Joseph E Jones Agency - Administrator:

Government Employees Health Association, Inc.
Association Benefit Plan
Plan 42, Contract CS 1065

Washington, D.C.

Report No. E-83-001- Ex. 3 Date FEB 18 1983

Joseph W. Lowell, Jr.
Inspector General

CON 114-24-3
January 1980

CONTENTS

INTRODUCTION

In November, 1981, we completed an audit of the Federal Employee Program (FEP) operations at the Joseph E. Jones Agency for the years 1976 through 1980. The audit was conducted pursuant to 5 U.S.C. Ch. 89; 5 CFR Ch. 1, Part 890; 41 CFR 1-15 and the terms of Contracts CS 1061, 1062, 1065 and 1164.

The Joseph E. Jones Agency is composed of three affiliated companies as follows:

Joseph E. Jones Partnership,
United Insurance Services, Inc. and
International Insurance Counselors, Inc.

While the total charges to the FEP contracts are generated by all three of the affiliated companies, the principal contract administrator appears to be Joseph E. Jones, individually (i.e. none of the affiliated companies is contractually responsible for the administration of the FEP contracts). Currently the Administrator is servicing the AFGE Health Benefit Plan, the Foreign Service Benefit Plan and the Association Benefit Plan. Accordingly, FEP subscriber claims submitted to these Plans are processed and paid by the Administrator. Until January 1, 1978, the Administrator also serviced the Alliance Health Benefit Plan. Currently the Alliance Plan is administered by the Mutual of Omaha at its Group Claims Office in Rockville, MD.

The Plans are all underwritten by the Mutual of Omaha Insurance Company, Omaha, Nebraska. Joseph E. Jones (individually) is the Mutual of Omaha - Washington Metropolitan Area General Agent (i.e. all Mutual of Omaha insurance written in the Washington metropolitan area is written through Joseph E. Jones).

The Association Benefit Plan is sponsored by the Government Employees Health Association, Inc. (GEHA) under OPM Contract CS 1065. The Association Benefit Plan is open only to members of GEHA and no associate memberships are offered to other Federal employees. The Administrator processes and pays only those claims submitted by retired members of GEHA. Health claims for active members of GEHA are processed and paid under other arrangements.

Joseph E. Jones has acted as Administrator for these Plans since the inception of the FEP program. Previous audits of the Administrator's operations were reported in conjunction with audits of the sponsoring Organizations and all previous audit findings have been resolved.

We issued a Draft audit report (Report No. E-82-003 D) detailing the tentative findings from our audit on March 16, 1982. The Administrator responded to the Draft report on June 11, 1982. The Administrator's comments on the audit findings were considered in the preparation of this report and are included, in their entirety as Appendix A to this report.

II. SCOPE OF AUDIT

The audit was performed in accordance with generally accepted Government auditing standards and included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances.

The audit consisted of a survey and review of the claims processing systems and procedures used at the Joseph E. Jones Agency to determine if benefit payments are substantially in compliance with allowable benefits offered by the Plans and that such payments were made in a timely and efficient manner. The review of the Administrator's claims processing systems was accomplished through the evaluation of a survey questionnaire developed by OPM's Insurance Audits Division. The survey questionnaire was based on provisions of the Contracts and Brochures involved and on OPM's regulations as contained in Part 890 of Title 5 of the Code of Federal Regulations.

In addition, we selectively reviewed administrative expenses charged to the Contracts for the years 1976 through 1980. Our review of administrative expenses was based on the terms of the Contract and the cost principles prescribed by 41 CFR, Part 1-15 to determine the allowability, allocability and reasonableness of the charges to FEP.

The objectives of our audit were to determine whether costs were charged to the FEP and services were provided to FEP subscribers in accordance with the terms of the Contracts. We also sought to determine if the Administrator's policies and procedures resulted in efficient, effective and economical operations.

III. FINANCIAL DATA

ASSOCIATION BENEFIT PLAN

	1976	1977	1978	1979	1980	Total
HEALTH BENEFITS PAID BY CONTRACT YEAR						
	$9,667,318	$11,263,039	$12,590,008	$13,213,792	$14,991,929	$61,726,086
ADMINISTRATIVE EXPENSE CONTRACT CHARGES						
	$ 75,017	$ 85,206	$ 176,950	$ 224,131	$ 329,638	$ 890,942

IV. SUMMARY OF RESULTS OF AUDIT

Our review of FEP operations performed by the Joseph E. Jones Agency resulted in the following:

1. Administrative Expenses

   a. FEP was improperly charged management fees of $541,673 during 1976 through 1980. The FEP contracts do not provide for a management fee charge and the amounts charged were unilaterally determined by the Administrator. (Audit Finding 1)

   b. For 1976 through 1978, the Administrator charged FEP $13,022 for rent which was in excess of the costs of ownership of the premises occupied. Such excess charges for rent are not allowed under the FPR`s. (Audit Finding 2)

   c. In 1976 and 1979, $75,522 in officers` salaries was inappropriately charged directly to FEP. The officers` salaries should have been allocated to FEP through overhead. (Audit Finding 3)

   d. FEP was overcharged $9,078 for reapportionment ratio errors in 1977 and 1979. (Audit Finding 4)

   e. FEP was overcharged for depreciation ($5,733 in 1977 and 1979) and rent ($3,404 in 1977) and was undercharged for legal and accounting expenses ($1,200 in 1977). (Audit Findings 5, 6 and 7)

   f. During 1977, 1978 and 1979, FEP overhead was inappropriately charged for legal and accounting expenses, and in 1978 FEP overhead was charged duplicate rent charges. (Audit Finding 8)

   g. Overhead adjustments due FEP as a result of items a through f amounts to $182,901. (Audit Finding 9)

   h. The Administrator needs to implement additional financial management techniques to enhance the financial management of FEP operations.

2. Claims Processing

   We found the Administrator`s claims processing policies and procedures to be generally satisfactory. Recommendations are made which we believe will more adequately identify (1) duplicate billings, (2) claims which are not medically necessary (3) worker`s compensation claims and (4) physical examinations. We also recommended changes in the procedures for determining reasonable and customary physician fees and in the administration of mental and nervous benefits.

V. AUDIT FINDINGS

A. ADMINISTRATIVE EXPENSES

1. Management Fees $541,673

For the years 1976 through 1980, the Administrator claimed, as an administrative expense against the FEP contracts, management fees of $541,673, as follows:

	1976	1977	1978	1979	1980	TOTAL
Management Fees	$56,467	$100,359	$92,651	$140,206	$151,990	$541,673

Our analysis of the management fee disclosed that the fee increased 169 percent over the five year period, although the number of subscribers decreased by 53 percent between 1977 and 1980.

The Administrator's concept of management fee first appeared in 1974 following the OPM Contracting Officer's elimination of Agents' commissions from the health benefits contracts underwritten by Mutual of Omaha. Contracts in effect in 1972 and prior specifically provided for payment of commissions, based on a percentage of premiums, as allowable costs under the contracts. In 1972, the Contracting Officer informed all affected parties that commissions would no longer be allowed under the contracts after 1973, but in order to allow the underwriter and the agent time to accommodate the change, OPM [then the U.S. Civil Service Commission (CSC)] agreed to contract for a flat sum commission payment for 1973 equal to the amount of the commission allowed for 1972. The commissions were eliminated because CSC believed that there was insufficient justification for a percentage commission which increased in relation to premiums and which bore no relationship to the value of the agent's services. Further, CSC stated that the cost of any services that actually benefitted the FEP and was covered by the commissions could be recovered as a valid charge to the administrative allowance. The CSC estimated that the elimination of the commissions would save the program significant amounts of money in subsequent years.

The first year following the elimination of commission payments the Administrator introduced an annual management fee as an administrative expense under the contracts. During a 1981 meeting between the Contracting Officer and the Administrator's Comptroller, the Comptroller admitted that the management fee was introduced as a substitute payment for the Agent's commission which was eliminated from the contracts after 1973.

Accordingly, we believe that the Administrator's charges for management fees are inappropriate and are not consistent with the CSC's Contracting Officer's intent. The purpose of eliminating commissions from allowable costs under the contracts was [illegible] charges to the contracts which were not based on a benefits received concept.

In addition, from 1974 forward, provisions of the administered contracts provide for allowable charges as follows:

"Item	Amount
(i) Administrative Charges Organization	Actual, but not to exceed 2.6% of total subscription charges for the contract term. (Percentage allowance may vary under specific contract)
(ii) Administrative Charges Underwriter	Actual, but not to exceed 4.0% of total subscription charges for the contract term. (Percentage allowance may vary under specific contract)
(iii) Taxes	Actual
(iv) Service Charge	(Fixed dollar amount negotiated for each specific contract)" (Parenthesis added)

The Contract further states that, "'Administrative Charges' means the amount of expenses incurred in the administration of this contract including, but not limited to, the cost of maintaining the eligibility files for coverage under this contract, the cost of investigation and settlement of claims under this contract, and the cost of making accounting and statistical reports. Administrative expenses allocated to this contract will be actual, necessary, [illegible] determined on an equitable and reasonable basis, with proper justification and accounting support. The Federal Procurement Regulations, 41 CFR, Part 1-15, shall apply in the determination of acceptable administrative expenses."

As noted above, the contracts do not specifically recognize the role of the Administrator for either administrative charges or service charges. The Administrator (in practice) operates under the administrative charge allowance provided for the Underwriter. It should also be noted that the contracts only provide for a profit (service charge) that is payable to the sponsoring organizations who are responsible for distribution of the funds to the underwriter or otherwise (not controlled by OPM). For the years involved, the management fee (profit) claimed by the Administrator is profit over and above the amount provided for in the contracts and, therefore, represents a violation of the Contract.

It is our opinion, therefore, that any profit awarded to the Administrator should be applied against the profit provided for in the contracts, thereby reducing the amounts due to the Underwriter. In addition, we believe that any additional profits (in addition to the service charge) which are claimed by the Administrator or others under the contract must be approved in advance by OPM and should be formally recognized in the prime contract. We found no evidence that the concept or the amount of the Administrator's management fee was negotiated or approved by any of the principal parties to the contracts. It appears that both the concept and the amount of the charge was unilaterally determined by the Administrator.

Administrator's Comments:
(See Appendix A for the full text of the Administrator's Comments)

The Administrator stated that the auditors misinterpreted the intent and the effect of the Contracting Officer's elimination of commissions from the contracts in 1974. The Administrator contends that the change was primarily to change the method of payment of the commissions from a percentage of premiums to actual costs incurred in servicing the FEP. The Administrator takes issue with the auditor's statement that the elimination of commissions was intended to result in a savings to the program. The Administrator states that prior to 1974, the commissions were for "... the necessary services performed in administering the FEHBP" and that there was no objection to the elimination of the commissions "... providing payment was made on the basis of actual and necessary costs incurred in servicing the FEHBP". The Administrator quotes from the Contracting Officer's letter as follows:

> "The actual expenses incurred for identifiable services, whether performed by the agent or the underwriter, which are necessary to the administration of the contract and policy would be a valid charge to the administrative expense allowance."

The Administrator contends that the management fee is payment for necessary services and "... does not represent a profit...". The Administrator feels, however, that subcontractors are entitled to a profit and that such profits should not be included in the service charge payable under the contract. The Administrator believes that payment of the management fee is in full compliance with 41 C.F.R., Part 1-15 because that part specifically refers to payments to subcontractors and authorizes costs as an allowable charge to the contract to the extent that the allowance is consistent with the relevant subparts. The Administrator stated that the management fee has been the subject of negotiation between the Jones Agency, the contractors and the Contracting Officer. The Administrator then points out that the Contracting Officer, by letter dated February 5, 1981, accepted the concept of charging a management fee to the contract for 1974 and 1975.

Inspector General's (IG) Reply to Administrator's Comments:

We do not believe that we have misinterpreted the Contracting Officer's intent in eliminating commissions from the contract. The facts surrounding the contract change clearly show that the purpose of the change was to eliminate unnecessary charges from the contract and that savings would be realized from the change. The anticipation of savings under the contract is evidenced by an internal memo from Mr. W. P. Gulledge (formerly Chief of Employee Organizations Division), dated March 1, 1973, as follows:

> "We have also entered into agreements with carriers who have a commission to pay a flat sum for 1973, equal to the amount of the commission in 1972. ... We have informed those carriers that it is our intention to eliminate commissions for 1974, and that any payments to brokers will have to come out of the insurance and/or service charge.
>
> ... All of these actions amount to a savings in the Program of approximately $2,499,100."

As can be seen from the above, a savings to the FEP was anticipated upon eliminating commissions from the contracts. The Contracting Officer did, however, inform all parties that any costs which are necessary for the administration of the contract and which were previously included in commissions would constitute allowable administrative charges to the contract. This, of course, means that such charges would require documentation and support to the same extent as other administrative charges. The Administrator states several times in his comments that the commissions (and now the management fee) were for "actual and necessary costs incurred in servicing the FEHBP." However, the Administrator has not provided any documentary evidence of the services provided or the cost of such services.

Although the Administrator contends that the management fee does not represent profit, we believe that the amount is purely profit and we continue to believe that the only profits allowable under the contracts are represented in the contracts as service charge. The service charge is paid to the contractors (Organizations) for distribution as they see fit. OPM has no control on the use of the service charge awards. Any profit to be paid to the administrator, therefore, should be paid from the service charge. This IG position is substantiated by the above quoted W. P. Gulledge memo (last sentence, first paragraph) and is also based on correspondence of former high level OPM officials who addressed the problem of profit for third party administrators. In this regard, we note that Mr. Ruddock (former CSC Contracting Officer) informed another Employee Organization plan that third party administrator profit shall be paid from the negotiated flat-sum service charge. In addition, early memos from Mr. Sol Papperman (former Chief of Legislative and Policy) and from Mr. Travis Mills (former Asistant General Counsel) set forth the principle that charges for profits do not constitute allowable administrative charges to the contracts and that the only profits provided for are in the form of the negotiated flat-amount service charge. We add to the above, that established and proper contract accounting principles dictate that profits be accounted for separately from administrative and other costs. Sections 3.5 of the audited contracts define administrative expenses in accordance with such principles.

Finally, the Administrator states that the management fee has been negotiated with the contractors and with OPM. The Administrator, however, did not provide any evidence of negotiations and we continue to believe that the amounts charged were unilaterally determined by the Administrator.

The Contracting Officer's allowance of the management fee charges for 1974 and 1975 was based on advice from the Insurance Audits Division contained in a memorandum dated February 10, 1981, as follows (in part):

> "For the years involved (1974 and 1975), we felt that the combination of salary and management fee paid to Mr. Jones resulted in compensation that was somewhat high, but we agreed to accept the amounts for those years because of the period involved and because our opinion of reasonable compensation would not be significantly less. Our acceptance of the amounts for 1974 and 1975 does not constitute our concurrence of the management fee concept or its method of computation."

Recommended Corrective Action:

We recommend that the Contracting Officer disallow the management fees (and applicable overhead) charged to the FEP contracts by the Administrator for the periods 1976 through 1980. The amounts so charged should be credited to FEP on the next Annual Accounting Statements submitted by the administered Organizations.

2. Rent versus Ownership $13,022

Our audit disclosed that for the years 1976 through 1978, the Administrator overcharged FEP, as direct charges against the FEP contracts, $13,022 for rent which was in excess of the costs of ownership, as follows:

	1976	1977	1978	TOTAL
Excess of Rent over Ownership (Direct)	$ 772	$10,548	$1,702	$13,022

Questioned overhead charges applicable to the unallowable rent overcharges are included in Audit Finding A.9. (Overhead Adjustments).

Administration of the FEP programs is conducted in their entirety at 1666 Connecticut Avenue, N.W., Washington, D.C.. The ownership of the building at this location is considered to be under common control of ownership with the Administrator, Joseph E. Jones. The building is owned jointly by the Joseph E. Jones Partnership (as a partnership landlord) and a corporation. The partners of the Joseph E. Jones Partnership are Joseph E. Jones and his wife, each partner owning a 43 percent interest in the building. The remaining 14 percent ownership of the building is held by a corporation which, in turn, is also fully owned by Joseph E. Jones and his wife.

Since the building is wholly owned (directly and indirectly) by Joseph E. Jones, we believe that the requirements of the Federal Procurement Regulations (FPR's), 41 CFR, Part 1-15.205-34(g), are applicable. These provisions state, in part:

> "Charges in the nature of rent between any division, subsidiary, or organization under common control are allowable to the extent such charges do not exceed the normal costs of ownership, such as depreciation, taxes, insurance, and maintenance (excluding interest or other unallowable costs pursuant to this Part 1-15)..."

Accordingly, we believe that FEP contracts administered by Joseph E. Jones were overcharged $13,022 for rent in excess of ownership costs during 1976, 1977 and 1978.

Administrator's Comments:

The Administrator concurred with the finding.

Recommended Corrective Actions:

a. We recommend that the Contracting Officer disallow $13,022 for the rent charged in excess of the cost of ownership (plus applicable overhead charges) which have been charged to FEP contracts administered by the Administrator.

b. The amounts disallowed should be credited to the administered FEP contracts on the next Annual Accounting Statement submissions.

3. Officers' Salaries $75,522

During 1976 through 1979, the Administrator inappropriately charged a portion of officers' salaries as a direct charge to the FEP contracts. Officers' salaries are, by their nature, considered to be more properly charged as indirect costs through overhead allocations. The incorrect charges, for the years involved are:

	1976	1977	1978	1979	TOTAL
Officers' Salaries (Direct)	$14,947	$22,079	$15,328	$23,168	$75,522

Questioned overhead resulting from the improper charging of officers' salaries as direct charges to the FEP contracts are included in Audit Finding A.9 (Overhead Adjustments).

Administrator's Comments:

"... officers salaries should have been apportioned on the basis of the Direct Salaries Method which is acceptable under the principles of cost accounting adopted by this Agency as of 1974. This method not only relates management's dollars to those of production, but also maintains consistency - which is a fundamental requirement specified by the Federal Procurement Regulations.

"In recognition of the above comment, officers salaries for 1980 were adjusted on the basis of Direct Salary Ratios. This produced an undercharge of $30,946 which, together with an adjusted overhead credit credit (sic) of $22,424, will be included with our Annual Accounting Statement for 1982 as a prior year's adjustment of $8,522 (increase)."

Inspector General's Reply to Administrator's Comments:

As stated in the audit finding, we determined that the Administrator improperly charged FEP contracts $75,522 for officers' salaries for 1976 through 1979 as a result of charging officers' salaries directly (i.e. via the Direct Salary Ratio) to the FEP. For 1980, the Administrator had charged officers' salaries according to our recommended method, but in his comments has stated that 1980 will be adjusted to the Direct Salary Ratio. Officers' salaries, by their very nature, are more properly classified as indirect charges and should have been allocated to FEP contracts through overhead [distributed on a ratio of total overhead costs to total direct costs (total costs less overhead costs)]. The Administrator's overhead pool is subdivided into three departments: Administrative, Controller and General Services. Mr. Jones, in his capacity as Chief Operating Officer of the entire business, should properly charge his salary to the Administrative overhead pool since this pool collects costs which generally benefit the total organization. Mrs. Jones, on the other hand, works primarily in the accounting area and should properly be charged to the Controller overhead pool.

We believe that charging officers' salaries to overhead is appropriate and is generally recognized throughout the cost accounting profession. Company officers can not normally identify their efforts to any final cost objective since their time is spent indiscriminately managing all lines of the company's business. All costs associated with such officials should, therefore, be allocated to final cost objectives on a basis that is all encompassing and which equitably assigns the costs to all business of the company.

We do not agree that the Direct Salary Ratio used by the Administrator is an appropriate basis for the distribution of officers' salaries. Direct salaries, in this case, are heavily weighted toward the FEP programs and, therefore, would cause a disproportionate share of officers' salaries to be charged to the FEP. The actual time expended by the officers in support of the FEP is considerably less than that derived from the proposed Direct Salary Ratio method.

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to credit FEP $75,522 (plus applicable overhead) for improper direct charges of officers salaries on the next Annual Accounting Statements submitted by the administered Plans.

4. Reapportionment Ratio Errors $9,078

The Joseph E. Jones Agency uses a ratio of Federal program drafts to total program drafts to allocate costs of the Group Claims Division to its Federal and Non-Federal segments. In 1977 and 1979, incorrect statistics were used in calculating the ratio.

For 1977, the draft count for the "School" line of business was not included in the draft count for the Non-Federal segment and the GEHA-Active line of business was improperly included in the Federal segment. In developing the ratio of Federal program drafts to total program drafts for 1979 reapportionment allocations, the Administrator erroneously included GEHA-Active drafts in the Non-Federal segment. Due to their special nature, GEHA-Active drafts should not be included in the draft counts. As a result FEP was overcharged $21,032 in 1977 and undercharged $11,954 in 1979.

Questioned overhead resulting from the reapportionment ratio errors described above are included in Audit Finding A.9. (Overhead Adjustments).

Administrator's Comments:

The Administrator concurred with the audit finding. However, in computing the amount of the finding, the Administrator eliminated costs questioned in findings #1 and #3 with which they did not agree.

Mgt. Fees Officers salaries

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to credit the appropriate FEP Special Reserves $9,078 (plus applicable overhead) in order to adjust 1977 and 1979 reapportionment charges to the proper amounts.

5. Depreciation Charges $5,733

Our analysis of depreciation charges from 1976 through 1980 disclosed allocation errors in CY 1977 and 1979. In 1977, total depreciation charges were not adjusted for auto and boat depreciation before allocation to FEP. This error resulted in a $6,394 overcharge in 1977. In addition, FEP direct charges for depreciation expense in 1979 was understated by $661.

Overhead adjustments resulting from the improper depreciation charges are included in Audit Finding A.9 (Overhead Adjustments).

Administrator's Comments:

The Administrator concurred with the audit finding.

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to credit FEP contracts administered with $5,733 (plus applicable overhead) on the next Annual Accounting Statements to adjust for the incorrect depreciation charges.

6. Rent Allocations $3,404

In 1977, the Federal Claims Division was directly charged $3,404 for rental charges that should have been directly charged to the Non-Federal Division.

Overhead adjustments resulting from improper rent direct charges are included in Audit Finding A.9 (Overhead Adjustments).

Administrator's Comments:

The Administrator concurred with the audit finding.

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to credit the FEP contracts administered with $3,404 (plus applicable overhead) for inappropriate rent on the next Annual Accounting Statements submitted for the administered Plans.

7. Legal and Accounting Charges $(1,200)

Direct charges to FEP for legal and accounting in 1979 were understated by $1,200.

Appropriate overhead adjustments for these undercharges to the FEP contracts is included in Audit Finding A.9 (Overhead Adjustments).

Administrator's Comments:

The Administrator concurred with the audit finding.

Recommended Corrective Action:

We recommend that the Contracting Officer allow the Administrator to charge FEP contracts an additional $1,200 (plus applicable overhead) on the next Annual Accounting Statement submissions.

8. Inappropriate Overhead Charges

a. Rent Allocation

In 1978, the Federal Claims Division was improperly allocated $908 of rental charges as a result of including duplicate charges in the overhead expense pool. Accordingly, FEP contracts were overcharged a portion of the $908 charge in 1978.

b. Legal and Accounting Charges

We determined that charges in the amount of $2,650 for the preparation of Mr. Jones' personal income tax returns were improperly included in legal and accounting charges for 1977. Accordingly, FEP Contracts were overcharged a portion of the $2,650 in 1977.

In 1978, $1,950 in accounting fees for the dissolution and liquidation of Joseph E. Jones, Inc. was improperly included in the total charges for legal and accounting fees allocated through overhead. The FPR's (41 CFR 1-15.205-23) provide that reorganization costs should not be charged to Government contracts, as follows:

> "Expenditures in connection with (a) planning or executing the organization or reorganization in the corporate structure of a business, including mergers and acquisitions, or (b) raising capital , are unallowable. Such expenditures include, but are not limited to , incorporation fees and costs of attorney, accountants, brokers, promoters and organizers, management consultants and investment counselors, whether or not employees of the contractor." [41 CFR 1-15.205-23]

For 1979, legal and accounting fees charged to overhead included unallowable charges totalling $2,100 resulting in an overcharge to FEP for a portion of the $2,100.

Adjustments for these items are included in Audit Finding A.9 (Overhead Adjustments).

Administrator's Comments:

The Administrator concurred with the audit finding.

Recommended Corrective Action:

Since the items in this finding are the result of inappropriate charges to the overhead expense pool, implementation of the Recommended Corrective Action for Audit Finding A.9 (Overhead Adjustments) will result in proper adjustment for these items.

9. Overhead Adjustments $182,901

As a result of Audit Findings 1 through 8 (above), the following adjustments to FEP overhead are appropriate:

Year	Questioned Overhead
1976	$ 13,446
1977	21,357
1978	38,687
1979	46,464
1980	62,947
Total	$182,901

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to credit the appropriate FEP Special Reserves $182,901 on the next Annual Accounting Statement in order to adjust 1976 through 1980 overhead charges to the proper amounts.

10. Financial Management

Our review of the Administrator's system of financial management disclosed that procedures have not been established which provide for budgeting techniques or which provide for an independent audit of the financial records.

Administrative costs associated with the Administrator's Federal programs runs in excess of one million dollars annually and are considered to be significant enough to require proper financial management control. In this regard, the Administrator should prepare annual (at minimum) budgets of the major expense areas based on past experience and reasonable projections of future activities. Actual performance during the year should be measured against the budgeted amounts and variances should be investigated on a monthly or quarterly basis. Budget preparation and execution is considered to be a fundamental financial management tool which assists managers in controlling business expenditures and activities. To operate through a contract cycle without any plan of action could result in the expenditure of FEP funds for unnecessary purposes or could result in expenditures in excess of the ceiling limitation.

We believe that a system of budget preparation and execution is imperative for the proper financial management of the FEP.

Since the OPM Audits Division audit cycle allows a substantial time between repeat audits of participants in the program, we believe that the Annual Accounting Statements submitted to OPM should be audited by an independent accounting firm. Such a requirement is necessary to insure consistency and accuracy of reporting costs to OPM and to insure that internal controls are adequate and functioning properly. As above, we believe that administrative expenditures in excess of one million dollars annually represents a significant cost to the program and requires proper financial management. In addition, an independent audit of internal controls and other financial management techniques used to control the many millions of benefit dollars paid annually is necessary.

Administrator's Comments:

"Maintaining a budget requires reliable information on which to base a projection. In the field of health benefits there are no reliable statistics available for use in ascertaining the number of persons that will become enrollees of a health plan for any given period.

"Since Administrative costs that are chargeable to the FEHB plans are audited on a monthly basis, it would be impractical and costly to both the Agency and the Government to generate such an added expense."

Audits Division's Reply to Administrator's Comments:

Projections of health benefits dollars are actuarially determined and were not intended to be included in our recommendation. Our concern is for proper control and management of the more than one million dollars expended annually for administrative costs.

The audit referred to in our finding is that of an independent audit done on an annual basis. Any internal audit performed by the Administrator (either monthly or on some other cycle) should be continued but it is not a substitute for an independent audit performed by an outside, unrelated accounting firm.

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to establish more adequate financial management techniques in order to monitor FEP expenditures. We recommend that implementation of the two financial management techniques referred to above (Budgeting and Independent Audit) be considered as minimum requirements for adequate financial management.

B. CLAIMS PROCESSING

2. Manual System; Association Benefit Plan (Retirees)

The Administrator manually adjudicates claims for the Association Benefit Plan. Although these Plans are also underwriten by the Mutual of Omaha, they have not been put on Mutual's automated PCA system.

Our review of the claims processing policies and procedures of the manually adjudicated plans found the systems to be generally satisfactory and no significant deficiencies were noted. Two areas, however, as described below, are considered to be in need of improvement:

a. In the application of R & C criteria, adjudicators apply a 10 percent tolerance factor which permits full payments for claims which exceed R & C limits by 10 percent.

   We believe that this practice is contrary to the R & C requirements of the Contracts and results in claims experience being unnecessarily inflated.

b. In the application of mental and nervous benefits, the Plan treats the initial hospital admission for a mental and nervous patient as a "medical" visit, not subject to mental and nervous limitations as provided in the Foreign Service Benefit Plan. It is our opinion that the initial visit of a mental and nervous patient should be considered as a mental and nervous benefit, subject to Plan benefit limitations.

Recommendations:

a. We recommend that the Administrator discontinue the practice of allowing a 10 percent tolerance factor to R & C determinations and that R & C criteria be considered as the maximum amount payable on routine claims.

b. We recommend that the Administrator treat the initial hospital admission for mental and nervous patients as a mental and nervous benefit, subject to mental and nervous limitations.

Administrator's Comments:

The Administrator does not agree with the recommendations.

VI. ACCOUNTING STATEMENT ADJUSTMENTS
SCHEDULE A
TOTAL QUESTIONED CHARGES - JOSEPH E. JONES AGENCY

AUDIT FINDINGS	1976	1977	1978	1979	1980	TOTAL
	Year Charged in Annual Accounting Statement					
Administrative Expenses						
1. Management Fees	$56,467	$100,359	$92,651	$140,206	$151,990	$541,673
2. Rent versus Ownership	772	10,548	1,702	-	-	13,022
3. Officers' Salaries	14,947	22,079	15,328	23,168	-	75,522
4. Reapportionment Ratio Errors	-	21,032	-	(11,954)	-	9,078
5. Depreciation Charges	-	6,394	-	(661)	-	5,733
6. Rent Allocations	-	3,404	-	-	-	3,404
7. Legal and Accounting Charges	-	-	-	(1,200)	-	(1,200)
8. Inappropriate Overhead Charges	-	-	-	-	-	-
9. Overhead Adjustments	13,446	21,357	38,687	46,464	62,947	182,901
TOTAL	$85,632	$185,173	$148,368	$196,023	$214,937	$830,133

Adjustments are required for the amounts shown above on the next Annual Accounting Statements.

Additional adjustments are required for lost investment income on all findings computed to date funds are returned to FEP.

SCHEDULE E

ASSOCIATION BENEFIT PLAN

AUDIT FINDINGS	Year Charged in Annual Accounting Statement					
	1976	1977	1978	1979	1980	Total
Administrative Expenses						
1. Management Fees	$5,494	$5,259	$18,642	$25,826	$27,206	$82,427
2. Rent versus Ownership	75	553	342	-	-	970
3. Officers' Salaries	1,454	1,157	3,084	4,268	-	9,963
4. Reapportionment Ratio Errors	-	1,102	-	(2,202)	-	(1,100)
5. Depreciation Charges	-	335	-	(122)	-	213
6. Rent Allocations	-	178	-	-	-	178
7. Legal and Accounting Charges	-	-	-	(221)	-	(221)
8.9 Overhead Adjustments	1,308	1,119	7,784	8,559	11,268	30,038
TOTAL	$8,331	$9,703	$29,852	$36,108	$38,474	$122,468

Adjustments are required for the amounts shown above on the next Annual Accounting Statement.

Additional adjustments are required for lost investment income on all findings computed to date funds are returned to FEP.

of Omaha
People you can count on
1666 Connecticut Ave. NW
Washington, DC 20009
Phone (202) 797-6700
M. L. EVERETT, Office Manager
C. E. ANDERSON, Administrative Assistant
J. C. WILFERT, Policy Service

June 11, 1982

Mr. Kevin J. Burns
U. S. Office of Personnel Management
Assistant Director for Insurance Programs
Washington, D. C. 20415

RE: Comments on Draft of Audit Report
No. 82-E 003-D, dated March 16, 1982

Dear Mr. Burns:

This is in reply to your letter dated March 16, 1982, which was received on April 14, 1982, requesting our comments on the draft of your audit report relative to our operations under the Federal Employees Health Benefits Program for the Calendar years 1976 through 1980.

Our comments appear under ENCLOSURE-1 in the same sequence as the findings on pages 6 through 13 of the audit report and are supported by EXHIBITS and Schedules under ENCLOSURES-2 through 5.

Should you have any questions on this matter, please do not hesitate to call me.

Sincerely,

Harris W. Havard
Comptroller

HWH:bmw

5-ENCLS: (1) Comments on Draft of Audit Report
(2) EXHIBIT-A, Prior Year Adjustments
(3) EXHIBIT-B, Allocation of Prior Year Adjustments
(4) EXHIBIT-C, Statement of Over and Under Charges
(5) Schedules-12:00 R (1976 through 1980) Adjustments to Administrative Costs

Mutual of Omaha
People you can count on...

Address all correspondence to
JOSEPH E. JONES, General Agent
1666 Connecticut Ave. NW
Washington, DC 20009
Phone (202) 797-6700

E. A. MOYLE CLU Assistant Manager
H. W. HAVARD, Comptroller
Agency Manager
M. L. EVERETT, Office Manager
C. E. ANDERSON, Administrative Assistant
J. C. WILFERT, Policy Service

June 11, 1982

U.S. Office of Personnel Management
Assistant Director for Insurance Programs
Washington, D.C. 20415

ATTN: Mr. Kevin J. Burns:

RE: Comments on Draft of Audit Report No. 82-E 003-D. dated March 16. 1982.

Dear Mr. Burns:

This is in reply to your letter dated March 16. 1982 requesting our comments on the draft of your audit report relative to our operations under the Federal Employees Health Benefits Program for the Calendar years 1976 thru 1980.

Our comments appear under ENCLOSURE-1 in the same sequence as the findings on pages 6 thru 13 of the audit report and are supported by EXHIBITS and Schedules under ENCLOSURES-2 thru 5.

Should you have any questions on this matter. please do not hesitate to call me.

Sincerely,

HARRIS W. HAVARD
Comptroller

5-ENCLS.
(1) Comments on Draft of Audit Report.
(2) EXHIBIT-A, Prior Year Adjustments. . .
(3) EXHIBIT-B, Allocation of Prior Year Adjustments.
(4) EXHIBIT-C. Statement of Over & Under Charges.
(5) Schedules-12:00 R (1976 thru 1980) Adjustments. to Administrative Costs.

COMMENTS ON AUDIT REPORT NO. 82 - 003 - D, DATED MARCH 16, 1982

1. MANAGEMENT FEE $541,673

The finding under this item is unacceptable and no adjustment is necessary for the reasons given in the following paragraphs.

The auditors misinterpreted the intent and effect of Mr. Andrew Ruddock's letters that were addressed to representatives of the Federal Employees Health Benefits Plans (FEHBP) administered by the Joseph E. Jones Agency-herinafter referred to as the Agency. (Attachment No. 1).

The purpose of Mr. Ruddock's letter was to eliminate the method of paying for services on the basis of a percentage of premiums; and, to adopt the system of paying for the actual costs incurred in servicing the FEHBP. It was not expected, as the report states, that "savings" would accrue by eliminating "commissions" on the basis of services performed. This concept is neither mentioned in Mr. Ruddock's letter nor would it be proper not to pay for the necessary services performed on behalf of the FEHBP simply because the auditors believe a savings would accrue if "commissions" were eliminated.

Prior to 1974, the "commissions" received by the Agency were for the necessary services performed in administering the FEHBP. This is evident from the letters addressed to Mr. Ruddock by representatives of the FEHBP (American Federation of Government Employees) (AFGE) and (Government Employees Health Association) (GEHA). Both letters clearly state that necessary services are performed for "commissions" received by the Agency (Attachments 2 & 3).

These letters show that the sponsoring organizations and the Agency had no objection to the elimination of the method of paying for services on the basis of premiums, providing payment was made on the basis of actual and necessary costs incurred in servicing the FEHBP. This is precisely the intent of Mr. Ruddock's letter (Attachment-1).

Next to the last paragraph of his letter, Mr. Ruddock states that:

> "With respect to the agent's commission, we are glad the (sponsoring organization) is inclined to agree with us that the cost of his services should be paid out of the administrative expense allowance or insurance charge.
>
> The actual expenses incurred for identifiable services, whether performed by the agent or underwriter, which are necessary to the administration of the contract and policy would be valid charge to the administrative expense allowance. (emphasis supplied)."

The Management Fee charged by the Agency was in payment for necessary services performed by the Agency in administering the FEHBP contract and policy and is an allowable charge under the Federal Procurement Regulations.

This fee does not represent a "profit", therefore, we disagree with the audit report in that a subcontractor must provide his services at cost without a provision for a profit. There is nothing in the Federal Procurement Regulations (41 C.F.R., Part 1-15) specifying such a restriction under which no sensible subcontractor would agree to operate.

A reasonable "profit", made by the Jones Agency, as a subcontractor, should not be included in the service charge payable to the underwriter. It would be tantamount to require a subcontractor who supplies any service to the prime contractor to forego a reasonable profit as part of his charge because the prime contractor is entitled to a service charge or profit. This is an impractical notion and the audit report does not point to any Federal Procurement Regulations specifying such a restriction. In fact, 41C.F.R., 1-15(f) specifically refers to payments to subcontractors and authorizes costs as an allowable charge to the contract to the extent that the allowance is consistent with the relevant subparts of Part 1-15.

The Management Fee is for services provided by the Agency in administering the FEHBP; therefore, we disagree with the suggestion that the services of the subcontractors must be approved in advance by OPM and recognized by the prime contract. While there was no reference in the prime contract concerning the services to be provided by the Agency, OPM was well aware that such services were performed and knows that payment is due on a quantum meruit basis.

At the auditor's request during their examination of the Agency's operations for 1974 and 1975, a revised method of accounting for the Agency's costs chargeable to the FEHB Plansffor 1974 and 1975 (including a Management Fee) was submitted to OPM's audit staff on November 18, 1977, for approval. Neither an acknowledgement of their approval or disapproval was ever received by this Agency.

In January of 1979, we again submitted our worksheets for 1974 through 1978 to OPM's audit staff for review and approval. The audit staff, at the time,raised no questions concerning either the system or the amounts, including the Management Fee.

The Management Fee has been the subject of negotiation between the Jones Agency, the contractor, and the contracting officer.

In January of 1981, representatives of OPM suggested that we submit a comparative statement of costs for 1974 and 1975 to OPM showing the FEHB Plans' total costs reduced by the Management Fee and officers salaries; and, increasing the balance by 10 percent. In response to this request a comparative statement of costs for 1974 through 1979 was presented to OPM staff for discussion and comment. (Attachment-4).

On February 5, 1981, Mr. Kevin J. Burns of OPM, (the contracting officer accepted the concept of charging a Management Fee to the FEHBP for 1974/1975). (Attachment-5). Since the Management Fee was allowable in 1974/1975, it follows that it should also be allowable for ensuing periods.

Although the audit report only questions the propriety but not the reasonableness of the Management Fee, we are prepared to defend the latter as a necessary cost for the proper administration of the FEHBP.

Mr. [illegible]

COMMENTS ON AUDIT REPORT NO. 82 - 003 - D, DATED MARCH 16, 1982

In summary, the Management Fee should be allowed because:

- it is a reasonable and necessary cost of administering the FEHB Plans;
- it was allowed by the contracting officer for 1974/1975;
- the audit report neither substantiates its findings nor provides any reference to provisions of the Federal Procurement Regulations in its support;
- No questions were raised by OPM's staff on this matter and this led us to believe that there was an advanced agreement on the propriety of the Management Fee and the method for its computation under C.F.R. 15.107; and,
- We believe that representatives of OPM had ample time to address the matter in 1977 when an agreement could have been reached to resolve the problem prior to the release of subsequent Annual Accounting Statements.

UNITED STATES CIVIL SERVICE COMMISSION
BUREAU OF RETIREMENT, INSURANCE, AND OCCUPATIONAL HEALTH
WASHINGTON, D.C. 20415

IN REPLY PLEASE REFER TO
RL:INS:E
YOUR REFERENCE

NOV 1 1972

Mr. Clyde M. Webber, National President
American Federation of Government Employees
1325 Massachusetts Avenue, N.W.
Washington, D. C. 20005

Dear Mr. Webber:

This refers to my letter of June 23, 1972, and Mr. Griner's reply of August 21, 1972, relating to the risk charge and commission provisions contained in the contract between the American Federation of Government Employees and the United States Civil Service Commission. We have, in this connection, carefully considered his letter, the letter of Mr. A. W. Randall dated August 8, 1972, and the letter of Mr. Joseph E. Jones dated July 12, 1972.

We appreciate your and your underwriter's agreement to change the term "risk-charge" to "insurance charge" and the amount thereof to a flat sum. The term "insurance charge" is acceptable to us but the flat-sum charge of $108,500 for 1973 proposed by the underwriter is not. In our letter of June 23, 1972, we noted that the Commission expects this charge to be a lower amount than in 1972 and proposed a charge for 1973 of $50,000. In view of the justification for the charge contained in your underwriter's letter of August 8, 1972, we now counterpropose a flat charge of $86,400 for 1973. This is a 10% reduction from the estimated $96,000 charge for 1972.

With respect to the agent's commission, we are glad the AFGE is inclined to agree with us that the cost of his services should be paid out of the administrative expense allowance or insurance charge. The actual expenses incurred for identifiable services, whether performed by the agent or underwriter, which are necessary to the administration of the contract and policy would be a valid charge to the administrative expense allowance. After 12 years, we see very little justification for a percentage commission, which increases as total premium increases and bears no necessary relationship to the value of the agent's services. Our present intention, therefore, is to eliminate the payment of a

RECEIVED AFGE
1972
MAIL ROOM

THE MERIT SYSTEM—A GOOD INVESTMENT IN GOOD GOVERNMENT

ATTACH-1.1

commission as a charge against our contract for 1974. To give you, your underwriter and agent time to accommodate to elimination of the commission, we are agreeable to contracting for a flat-sum commission payment for 1973 equal to the amount of the commission in 1972.

We would appreciate your prompt agreement to the proposals on the insurance charge and commission in this letter so we may proceed to amend our contract for 1973.

Sincerely yours,

Andrew E. Ruddock

Andrew E. Ruddock
Director

ATTACH- 1.2

NATIONAL PRESIDENT · EXECUTIVE VICE PRESIDENT, WASHINGTON, D. C. · DOUGLAS H. KERSHAW, NATIONAL SEC.-TREAS.

NATIONAL HEADQUARTERS
400 FIRST STREET, N.W.
WASHINGTON, D. C. 20001
737-4705

IN REPLY PLEASE REFER TO:

5/CSC

August 21, 1972

Mr. Andrew E. Ruddock, Director
Bureau of Retirement, Insurance, and
Occupational Health
U. S. Civil Service Commission
Washington, D. C. 20415

Re: RL:IMS:E

Dear Mr. Ruddock:

As requested in your letter of June 23, 1972, we have consulted with our underwriter, the Mutual of Omaha Insurance Company, in connection with the risk charge which is currently stated in Contract No. 1061 between the U. S. Civil Service Commission and the American Federation of Government Employees as 1.3% of total subscription charges for the contract term.

I am attaching a copy of a letter received from Mr. A. W. Randall, Executive Vice President of the Mutual of Omaha Insurance Company, in which he outlines the purpose of the risk charge and the reasons that the risk charge for the AFGE Health Benefit Plan would be considered minimal in relationship to the risk charge made to commercial risks.

Mr. Randall has indicated that he is agreeable to a change in terminology from "risk charge" to "insurance charge". He has also indicated their willingness to state this "insurance charge" as a flat dollar amount to be negotiated at the time the rate negotiations are made each year.

You will note that Mr. Randall has responded to your request that the flat-sum charge for the 1973 contract year be set at $50,000 with a counter proposal that due to the negative balance in the special reserve account for the AFGE Plan as of December 31, 1971 amounting to $975,092 that the flat-sum charge for 1973 be set at $108,500.

ATTACH-2.1

TO DO FOR ALL THAT WHICH NONE CAN DO FOR HIMSELF

The AFGE Health Benefit Plan has a [illegible] balance as of December 31, 1971, and the 1973 premium proposals, because of Price Commission policy, did not include any factor for recoupment of a deficit in the special reserve level. In addition, our rate negotiations with the Mutual of Omaha Insurance Company, which had been concluded prior to the receipt of your letter of June 23, 1972, were based on the assumption that there would be no change in the 1.3% risk charge which appeared in our contract for 1972.

Under no circumstances will we negotiate a flat sum "insurance charge" with the Mutual of Omaha Insurance Company which will be in excess of the current 1.3% risk charge. Should the proposed flat dollar amount of $108,500 for 1973 prove to be in excess of the 1.3% [illegible] actual amount of the subscription charges have been determined for 1973, this factor will be taken into consideration in future negotiations. Based on the current estimate for 1973 subscription charges, it would not appear that the figure of $108,500 will exceed the 1.3% guideline.

With reference to the commission allowance of 0.38% of premium, we are attaching a copy of the justification for this commission allowance received from Mr. Joseph E. Jones, General Agent for the Mutual of Omaha Insurance Company in the Washington Metropolitan Area. Definite services on an administrative and consultation basis are provided to the AFGE Health Benefit Plan by Mr. Joseph E. Jones, but we are inclined to agree with you that payment for such services should be a matter between the Mutual of Omaha Insurance Company's Home Office and Mr. Jones and should be paid for out of the underwriter's administrative allowance or insurance charge, rather than as a stated commission allowance.

Should you require any additional information, please let me know.

Sincerely yours,

J. F. Griner
National President

Enclosure

cc: Norman Conway
Joseph E. Jones

ATTACH-3.2

Mr. Andrew E. Ruddock, Director
Bureau of Retirement, Insurance
and Occupational Health
U. S. Civil Service Commission
Washington, D. C. 20415

Dear Mr. Ruddock:

In my meeting with you on 14 December 1972, I raised the matter of the agent's commission discussed in paragraph 3 of your letter of 10 November 1972. I reported that Mr. Jones performs a series of special services necessary for security reasons which has led us to conclude that he is entitled to compensation beyond that which is approved for administrative expenses. Based on my conversation with you, I would like to submit the following counterproposal to the position stated in your letter of 10 November 1972.

We will discontinue the agent's commission as such.

Instead, I propose that you approve the sum of $7,000 in lieu of reimbursement on my certification that this amount properly compensates Mr. Jones for certain services of a security nature which he performs for our Plan.

Because of security considerations, these services cannot be documented for examination during your normal audit of our Plan's expenses, but I will retain in my office for your review at any time a detailed list of such services. We will bear the responsibility for continually reviewing these services rendered by Mr. Jones to our Plan to ensure that continuation of the payment of $7,000 as expenses is justified. At any time that we estimate these services at less than $7,000, I will so report to you.

We will instruct Mr. Jones to charge our Plan for time and expenses in supplying overt support to us. The special services described above will be those that cannot normally be documented and listed as expenses.

ATTACH - 3.1

We have been informed by the underwriter that it will not object to your counterproposal to establish a flat insurance charge of $69,300.

I shall await your approval of my proposal in paragraph one above before taking any further action.

Very truly yours,

[redacted] STAT

President

STAT

DD/Pers/[redacted]

Distribution:

Orig & 1 - Adse
~~1~~ - Mr. Jos. Jones
1 - C/BSD
1 - DD/Pers/SP

ATTACH-3.2

January 26, 1981

Mr. George M. MacWhorter
Employees Organization Plan's Division
Office of Personnel Management
P. O Box 707
Washington, D. C. 20044

RE: 1974 & 1975 Administration Expense
of Joseph E. Jones Agency

Dear Mr. MacWhorter:

In response to your inquiry during your meetings with Mr. Havard and Mr. Kator, I am enclosing the expenses for 1974 and 1975 with the Management Fees and Officers Salaries allocated to the four Plans.

I am hopeful that this matter can be resolved in the near future.

Sincerely,

Joseph E. Jones
General Agent

JEJ:bmw

Enclosure

and Accounting.

ATTACH-4.1

ATTACH 4.1

J O S E P H E. J O N E S A G E N C Y

FEDERAL EMPLOYEES HEALTH BENEFITS PLANS

Review and Analysis of Agent's Reimbursements
For the Calendar Years Ended December 31, 1974 - 1979

Proposed revision to the method of charging the Plans for services of the Agent

			$ 1056, Total	AFGE	AFSPA	GEHA	NAPFE
				1	9 7	4	
1.	Allocation Factors (%)		100.00	42.58	29.43	17.14	10.85
2.	Original Charges - Total		$ 427 968	$ 182 357	$ 118 162	$ 81 742	$ 45 707
3.	LESS: Management Fee Charged to Plans	1/	32 507	13 841	9 568	5 572	3 526
	Officers' Salaries Charged to Plans	1/	17 439	7 426	5 132	2 989	1 892
4.	Balance		$ 378 022	$ 161 090	$ 103 462	$ 73 181	$ 40 289
5.	Profit Allowance Proposed (10% X Line 4)		37 802	16 109	10 346	7 318	4 029
6.	Officer's Salary Proposed	2/	13 200	5 621	3 885	2 262	1 432
7.	Redetermined Charges		$ 429 024	$ 182 820	$ 117 693	$ 82 761	$ 45 750
8.	Overhead Ratio (%)		27.53				
		$	3092.	1	9 7	5	
1.	Allocation Factors (%)		100.00	36.83	29.65	19.50	14.02
2.	Original Charges - Total		$ 488 805	$ 194 104	$ 133 688	$ 97 761	$ 63 252
3.	LESS: Management Fee Charged to Plans	1/	33 345	12 281	9 887	6 502	4 675
	Officer's Salary Charged to Plans	1/	26 712	9 838	7 920	5 209	3 745
4.	Balance		$ 428 748	$ 171 985	$ 115 881	$ 86 050	$ 54 832
5.	Profit Allowance Proposed (10% X Line 4)		42 875	17 199	11 588	8 605	5 483
6.	Officer's Salary Proposed	2/	14 100	5 193	4 181	2 750	1 976
7.	Redetermined Charges		$ 485 723	$ 194 377	$ 131 650	$ 97 405	$ 62 291
8.	Overhead Ratio (%)		25.90				
		$	15980	1	9 7	6	
1.	Allocation Factors		100.00	24.33	13.14	9.73	52.80
2.	Original Charges - Total		$ 792 352	$ 190 957	$ 102 610	$ 85 416	$ 413 369
3.	LESS: Management Fee Charged to Plans	1/	56 467	13 738	7 420	5 494	29 815
	Officers' Salaries Charged to Plans	1/	14 947	3 637	1 963	1 454	7 893
4.	Balance		$ 720 938	$ 173 582	$ 93 227	$ 78 468	$ 375 561
5.	Profit Allowance Proposed (10% X Line 4)		72 094	17 358	9 323	7 847	37 566
6.	Officer's Salary Proposed	2/	15 300	3 722	2 010	1 489	8 079
7.	Redetermined Charges		$ 808 332	$ 194 662	$ 104 560	$ 87 804	$ 421 306
8.	Overhead Ratio (%)		21.16				

		$ 42,925 Total	AFGE	AFSPA	GEHA	NAPFE
			1	9 7	7	
1.	Allocation Factors (%)	100.00	14.16	6.32	5.24	74.28
2.	Original Charges - Total	$1611 064	$199 812	$ 89 159	$ 83 291	[illegible]
3.	LESS: Management Fee Charged to Plans	100 359	14 212	6 338	5 260	74 549
	Officers' Salaries Charged to Plans	22 079	3 127	1 394	1 157	16 401
4.	Balance	$1488 626	$182 473	$ 81 427	$ 76 274	[illegible]
5.	Profit Allowance Proposed (10% X Line 4)	148 863	18 247	8 143	7 687	[illegible]
6.	Officer's Salary Proposed	16 500	2 337	1 042	865	12 256
7.	Redetermined Charges	$1653 989	$203 057	$ 90 612	$ 85 426	[illegible]
8.	Overhead Ratio (%)	15.71				
		15,561	1	9 7	8	
1.	Allocation Factors (%)	100.00	52.67	27.21	20.12	-
2.	Original Charges - Total	$ 855 158	$ 449 503	$ 226 396	[illegible]	$ 2 309
3.	LESS: Management Fee Charged to Plans	92 651	48 800	25 210	18 641	-
	Officer's Salary Charged to Plans	15 328	8 073	4 171	3 084	-
4.	Balance	$ 747 179	$ 392 630	$ 197 015	$ 155 225	$ 2 309
5.	Profit Allowance Proposed (10% X Line 4)	74 718	39 263	19 701	15 523	231
6.	Officer's Salary Proposed	17 700	9 322	4 816	3 562	-
7.	Redetermined Charges	$ 839 597	$ 441 215	$ 221 532	[illegible]	$ 2 540
8.	Overhead Ratio (%)	24.53				
		39,441	1	9 7	9	
1.	Allocation Factors	100.00	58.69	22.89	18.42	-
2.	Original Charges - Total	$1183 667	[illegible]	[illegible]	[illegible]	[illegible]
3.	LESS: Management Fee Charged to Plans	140 206	32 287	32 003	25 826	-
	Officers' Salaries Charged to Plans	23 168	13 597	5 303	4 268	-
4.	Balance	$1020 293	$ 594 712	[illegible]	[illegible]	[illegible]
5.	Profit Allowance Proposed (10% X Line 4)	102 029	59 471	23 059	19 472	[illegible]
6.	Officer's Salary Proposed	22 900	13 440	5 242	4 218	-
7.	Redetermined Charges	$1145 222	$ 667 623	$ 258 893	$ 218 409	[illegible]
8.	Overhead Ratio (%)	22.44				

1/ Excludes Overhead
2/ Based Upon Maximum Federal Insurance Contribution (FICA)

1/24/81

JOSEPH E. JONES AGENCY

FEDERAL EMPLOYEES HEALTH BENEFITS PLANS (FEHBP)

COMMENTS ON AUDIT REPORT NO. 82 - 003 - D, DATED MARCH 16, 1982

2. RENT vs OWNERSHIP ($ 13 022)

The finding under this item is accepted which, together with an adjusted overhead credit of $ 4 304, will be included with our Annual Accounting Statement for 1982 as a prior year adjustment (decrease).

Years	Direct Overcharge	Adjusted Overhead Charged	Total Overcharge
1976	$(772)	$(163)	$(935)
1977	(10 548)	(2 198)	(12 746)
1978	(1 702)	(1 943)	(3 645)
TOTALS	$(13 022)	$(4 304)	$(17 326)

EXHIBITS-C & Schedules-12:00R for 1976 thru 1978 (ENCLS. 4 & 5)

3. OFFICERS SALARIES ($ 75 522)

Our reply to your Informal Inquiry No. 11, dated 11/18/81 was in error; officers salaries should have been apportioned on the basis of the Direct Salaries Method which is acceptable under the principles of cost accounting adopted by this Agency as of 1974. This method not only relates management's dollars to those of production, but also maintains consistency - which is a fundamental requirement specified by the Federal Procurement Regulations.

In recognition of the above comment, officers salaries for 1980 were adjusted on the basis of Direct Salaries Ratios. This produced an undercharge of $30 946 which, together with an adjusted overhead credit credit of $ 22 424, will be included with our Annual Accounting Statement for 1982 as a prior year's adjustment of $ 8 522 (increase).

EXHIBIT-C & Schedule-12:00 for 1980 (ENCLS. 4 & 5)

ENCLOSURE NO. 1 Sheet 2 of 5

6/11/82

JOSEPH E. JONES AGENCY

FEDERAL EMPLOYEES ...

COMMENTS ON AUDIT REPORT NO. 82 - 003 - D, DATED MARCH 16, 1982

4. REAPPORTIONMENT ($ 9 978)

There is no way to determine from the audit report whether this finding is correct. Our computation produced an overcharge of $ 4 171 which will be included in our Annual Accounting Statement for 1982 as prior years' adjustments (decrease).

Years	Direct Reapport-ionment	Adjusted Overhead	Total (Over) Under Charge
1977	$(17 303)	$(3 605)	$(20 908)
1979	15 218	1 519	16 737
TOTALS	$(2 085)	$(2 086)	$(4 171)

EXHIBIT-C & Schedules-12:00 R for 1977 & 1979 (ENCLS. 4 & 5)

5. DEPRECIATION ($ 6 394)

The finding under this item is accepted which, together with an adjusted overhead credit of $ 1 332, will be included with our Annual Accounting Statement for 1982 as a prior year's adjustment (decrease).

Direct Overcharge	($ 6 394)
Adjusted Overhead	(1 332)
Total Overcharge	($ 7 726)

EXHIBIT-C & Schedule-12:00 for 1977 (ENCLS. 4 & 5)

6. RENT REAPPORTIONMENT ($ 3 404)

The finding under this item is accepted which, together with an adjusted overhead credit of $ 709, will be included with our Annual Accounting Statement for 1982 as a prior year adjustment (decrease).

Direct Overcharge	($ 3 404)
Adjusted Overhead	(709)
Total Overcharge	($ 4 113)

EXHIBIT-C & Schedule-12:00R for 1977 (ENCLS. 4 & 5)

7. LEGAL & ACCOUNTING $ 1 200

The finding under this item is accepted and, together with an adjusted charge for overhead of $ 120, will be included with our Annual Accounting Statement for 1982 as a prio year's adjustment (increase).

Direct Undercharge	$ 1 200
Adjusted Overhead	120
Total Undercharge	$ 1 320

EXHIBIT-C & Schedule-12:00R for 1979 (ENCLS. 4 & 5)

7a. POSTAGE $ 2 355

This item was introduced by your auditors but does not appear in the report; nevertheless, it will be included with our Annual Accounting Statement for 1982 as a prior year adjustment (increase).

Direct Undercharge	$ 2 355
Adjusted Overhead	(1 706)
Total Undercharge	$ 649

EXHIBIT-C & Schedule-12:00R for 1979 (ENCLS. 4 & 5)

8. INAPPROPRIATE OVERHEAD CHARGES

a. Rent Allocation (1978) ($ 908)

The finding under this item is accepted and was adjusted by reducing the total overhead, recomputing the overhead ratio and applying it to the total costs chargeable to each cost center (See ENCL. 5 for 1978).

b. Legal & Accounting Charges

The following findings under this sub-item are acceptable and will be treated in the same manner as Item 8a above:

(1) Accounting Fee (1977)	($ 2 650)
(2) Legal Fee (1978)	($ 1 950)
(3) Legal Fee (1979)	(2 100)

(See ENCLS. 5 for 1977 the 1979)

N O T E: As stated under sub-item 8a the overhead adjustments are not shown separately because they are included in the total adjusted overhead for each year; i.e., $ 1 983 (1977); $ 1 529 (1978); $ 2 012 (1979).

JOSEPH E. JONES AGENCY

FEDERAL EMPLOYEES HEALTH BENEFITS PLANS (FEHBP)

COMMENTS ON AUDIT REPORT NO. 82 - 003 - D, DATED MARCH 16, 1982

ALLOCATION OF PRIOR YEARS' ADJUSTMENTS ($ 22 845)

Year	PARTICULARS	Total Costs	AFGE	AFSPA	GEHA	NAPFE
1976	Charged	791 702	190 829	102 454	85 476	412 943
	Chargeable	790 767	190 602	102 331	85 383	412 449
	Overcharges	(935)	(227)	(123)	(91)	(494)
	Adjusted Allocation Ratios	100%	24.33 %	13.14%	9.73%	52.80%
1977	Charged	1 611 064	199 812	89 159	83 291	1238802
	Chargeable	1 565 571	193 370	86 284	80 907	1205010
	Overcharges	(45 493)	(6 442)	(2 875)	(2 384)	(33 792)
	Adjusted Allocation Ratios	100%	14.16%	6.32%	5.24%	74.28%
1978	Charged	855 158	449 503	226 396	176 950	2 309
	Chargeable	851 513	447 583	225 404	176 217	2 309
	Overcharged	(3 645)	(1 920)	(992)	(733)	-0-
	Adjusted Allocation Ratios	100%	52.67%	27.21	20.12%	-0-
1979	Charged	1 180 826	689 080	267 345	224 131	270
	Chargeable	1 198 883	699 678	271 478	227 457	270
	Undercharged	18 057	10 598	4 133	3 326	-0-
	Adjusted Allocation Ratios	100%	58.69%	22.89%	18.42%	-
1980	Charged	1 785 489	1 054 383	401 254	329 638	214
	Chargeable	1 794 660	1 059 849	403 317	331 280	214
	Undercharged	9 171	5 466	2 063	1 642	-0-
	Adjusted Allocation Ratios	100%	59.60%	22.50%	17.90%	-
	TOTAL PRIOR YEARS' ADJUSTMENTS (Over) Under Charged	(22 845)	7 475	2 206	1 760	(34 286)

6/11/82

ENCLOSURE NO. 3 Sheet 1 of 1

COMMENTS ON THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S DRAFT OF AUDIT REPORT NO. E-003-D, DATED MARCH 16, 1982

STATEMENT OF OVER AND (UNDER) CHARGES
For the Calendar Years Ended December 31, 1976 thru 1980

SOURCE: Schedules 12:00-R

		1976	1977	1978	1979	1980	TOTALS
1. Management Fee							
2. Rent vs Ownership	DC	772	10 548	1 702	-0-	-0-	13 022
	OH	163	2 198	1 943	-0-	-0-	4 304
	T	935	12 746	3 645	-0-	-0-	17 326
3. Officers Salaries		-0-	-0-	-0-	-0-	(30 946)	(30 946)
	OH	-0-	-0-	-0-	-0-	22 424	22 424
	T	-0-	-0-	-0-	-0-	(8 522)	(8 522)
4. Reapportionment	DH	-0-	17 303	-0-	(15 218) 3/	-0-	2 085
	OH	-0-	3 605	-0-	(1 519)	-0-	2 086
	T	-0-	20 908	-0-	(16 737	-0-	4 171
5. Depreciation	DC	-0-	6 394	-0-	-0-	-0-	6 394
	OH	-0-	1 332	-0-	-0-	-0-	1 332
	T	-0-	7 726	-0-	-0-	-0-	7 726
6. Rent Reapportionment		-0-	3 404	-0-	-0-	-0-	3 404
	OH	-0-	709	-0-	-0-	-0-	709
	T	-0-	4 113	-0-	-0-	-0-	4 113
7. Legal & Accounting		-0-	-0-	-0-	(1 200)	-0-	(1 200)
	OH	-0-	-0-	-0-	(120)	-0-	(120)
	T	-0-	-0-	-0-	(1 320)	-0-	(1 320)
7a. Postage		-0-	-0-	-0-	-0-	(2 355)	(2 355)
	OH	-0-	-0-	-0-	-0-	1 706	1 706
	T	-0-	-0-	-0-	-0-	(649)	(649)
TOTAL DIRECT COSTS		772	37 648	1 702	(16 418)	(33 301)	(9 596)
8. Revised Overhead		163	5 861	414	(3 651)	(6 065)	(3 278)
9. Overhead Adjustments		-0-	1 983 1/	1 529 2/	2 012 4/	30 195	35 719
Total Overhead		163	7 844	1 943	(1 639)	24 130	32 441
TOTAL OVER (UNDER) CHARGED		935	45 493	3 645	(18 057)	(9 171)	22 845

1/ Adjusted Overhead of $ 2 650 for Legal & Accounting. (1977)
2/ Adjusted Overhead of $ 908 for Rent and $ 1 950 for Legal (1978) and Accounting.
3/ Includes $ 661 Reapportionment of $ 1 294 total adjustment of Depreciation. ($716 X 92.4503 % = $ 661).
4/ Includes adjustment to Overhead of Depreciation ($1 294), Legal and Accounting ($1 200 & $ 2 100).

ENCLOSURE 4. Sheet 1 of 1

DC = Direct & Apportioned Costs
OH = Overhead
T = Totals

ENCLOSURE 4 Sheet 1 of 1

United States
Office of
Personnel Management

Washington, D.C. 20415

In Reply Refer To
CNE

Your Reference

2/5/81

Mr. Joseph E. Jones, General Agent
Mutual of Omaha
1666 Connecticut Avenue, N.W.
Washington, DC 20009

Dear Mr. Jones:

For 1974 and 1975, our Office of Audits questioned the propriety of charging management fees as administrative expenses under the Federal Employees Health Benefits Program contracts with American Federation of Government Employees and American Foreign Service Protective Association, Inc. After review and discussion we have decided to accept the management fees for the two years in question as reasonable charges against the contracts.

Since it seems questionable to charge management fees as administrative expenses in the absense of a contractual arrangement for such charges, we suggest you enter into a service-type contract with Mutual of Omaha which would identify the services required of an administrator and the management fee(s) an administrator should reasonably expect to receive for providing the services.

We trust this information will assist you.

Sincerely yours,

Kevin J. Burns

Kevin J. Burns, Assistant Director
for Insurance Programs

cc: Mr. Kenneth Blaylock
Mr. E. Gregory. Kryze
Mr. James L. Edwards
Mr. Irving Kator

ATTACH-6

CON 114-24-3
January 1980

J O S E P H   E.   J O N E S   A G E N C Y
FEDERAL EMPLOYEES HEALTH BENEFITS PLANS (FEHBP)

COMMENTS ON THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S DRAFT OF AUDIT REPORT NO. E-003-D, DATED MARCH 16, 1982
ADJUSTMENTS TO ADMINISTRATIVE COSTS
For the Calendar Year Ended December 31, 1976

Schedule - 12:00-R

					Group Claims Department			FEHBP		AUDIT	
	Particulars	Agency's Combined Costs	Overhead	Sales Dept	Total	Non-FEHBP	FEHBP	Direct Costs	Total Costs	Report Item No.	Inquiry No.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	Original Reapportionment Ratios				100.0000%	10.7963%	89.2049 %	-	-	-	-
2.	Revised Reapportionment Ratios				-	-	-	-	-	-	-
3.	Original Costs	1 712 128	298 998	680 844	730 280	78 843	651 437	2 006	653 443		
4.	Applied Overhead		(298 998)	144 057	154 517	16 682	137 835	424	138 259		
5.	(21.15856%)										
6.	TOTALS	1 712 128	-0-	824 901	884 797	95 525	789 272	2 430	791 702		
7.	ADJUSTMENTS PER AUDIT:										
8.	Rent vs Ownership			772			(772)		(772)	2	B-6
9.	Overhead (21.15856)			163			(163)		(163)		
10.	TOTAL OVERCHARGE			935			(935)		(935)		
11.											
12.	BALANCE CHARGEABLE						788 337	2 430	790 767		

(6/2/82)

J O S E P H E. J O N E S A G E N C Y

FEDERAL EMPLOYEES HEALTH BENEFITS PLANS (FEHBP)

COMMENTS ON THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S DRAFT OF AUDIT REPORT NO. E-003-D, DATED MARCH 16, 1982

ADJUSTMENTS TO ADMINISTRATIVE COSTS

For the Calendar Year Ended December 31, 1977

Schedule - 12:00-R

	Particulars	Agency's Combined Costs	Overhead	Sales Dept	Group Claims Department Total	Group Claims Department Non-FEHBP	Group Claims Department FEHBP	FEHBP Direct Costs	FEHBP Total Costs	AUDIT Report Item No.	AUDIT Inquiry No.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	Original Reapportionment Ratios				100.0000%	3.0000%	97.0000%	-	-		
2.	Revised Reapportionment Ratios				100.0000%	4.9539%	95.0461%	-	-	4	B -8
3.	Original Costs	2 487 540	337 722	721 100	1 212 721	36 381	1 227 458	164 879	1 392 337		
4.	Applied Overhead	-0-	(337 722)	113 280	190 510	5 715	192 825	25 902	218 727		
5.	(15.7093 %)										
6.	TOTALS	2 487 540	-0-	834 380	1 403 231	42 096	1 420 283	190 781	1 611 064		
7.	ADJUSTMENTS PER AUDIT:										
8.	Rent VS Ownership			10 548	-	-	(10 548)	-	(10 548)	2	B-5 & 6
9.	Depreciation			6 592	-	(198)	(6 394)	-	(6 394)	5	B-4
10.	Rent					3 404	(3 404)	-	(3 404)	8a	B-7
11.	Legal & Accounting		(2 650)	2 650	-	-	-	-	-	7&8	B-9
12.	TOTAL ADJUSTMENTS	-0-	(2 650)	19 790	-	3 206	(20 346)	-	(20 346)		
13.	Adjusted Original Costs										
14.	(Line 3 LESS 12)	2 487 540	335 072	740 890	1 212 721	39 587	1 207 112	164 879	1 371 991		
15.	REVISED COSTS AND REAPPORTIONMENTS (Adjusted)										
16.	Adjusted Costs	2 487 540	335 072	740 890	1 212 721	60 077	1 189 809	164 879	1 354 688		
17.	Applied Overhead - Revised										
18.	(15.5669 %)	-0-	(335 072)	115 334	188 783	9 352	185 216	25 667	210 883		
19.	TOTAL REVISED COSTS	2 487 540	-0-	856 224	1 401 504	69 429	1 375 025	190 546	1 565 571		
20.	REAPPORTIONMENT ADJUSTMENT (Line 3 LESS 16) -				-0-	17 303	(17 303)	-	-	4	B-8
21.	OVERCHARGES: Total Costs (Line 3 LESS 16)								37 649		
22.	Applied Overhead (Line 4 LESS 17)								7 844		
23.	TOTAL								45 493		

(6/2/82)

J O S E P H   E.   J O N E S   A G E N C Y

FEDERAL EMPLOYEES HEALTH BENEFITS PLANS (FEHBP)

COMMENTS ON THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S DRAFT OF AUDIT REPORT NO. E-003-D, DATED MARCH 16, 1982

ADJUSTMENTS TO ADMINISTRATIVE COSTS

For the Calendar Year Ended December 31, 1978

Schedule - 12:00-R

	Particulars	Agency's Combined Costs	Overhead	Sales Dept	Group Claims Department			F E H B P		A U D I T	
					Total	Non-FEHBP	FEHBP	Direct Costs	Total Costs	Report Item No.	Inquiry No.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	Original Reapportionment Ratios				100.0000%	11.0000%	89.0000%	-	-		
2.	Revised Reapportionment Ratios				-	-	-	-	-		
3.	Original Costs	1 985 913	391 190	824 184	761 400	83 832	677 568	9 139	686 707		
4.	Applied Overhead										
5.	(24.5303%)	-0-	(391 190	202 175	186 774	20 565	166 209	2 241	168 450		
6.	TOTALS	1 985 913	-0-	1 026 359	948174	104 397	843 777	11 380	855 157		
7.	ADJUSTMENTS PER AUDIT:										
8.	Rent vs Ownership			1 702	-	-	(1 702)	-	(1 702)	2	B-6
9.	Rent		(908)	908	-	-	-	-	-	8a	B-7
10.	Legal & Accounting		(1 950	1 950	-	-	-	-	-	8c	B-9 & 12
11.	TOTAL ADJUSTMENTS	-0-	(2 858)	4 560	-	-	(1 702)	-	(1 702)		
12.	ADJUSTED ORIGINAL COSTS										
13.	Totals	1 985 913	388 332	828 744	761 400	83 832	675 866	9 139	685 005		
14.	Applied Overhead - Revised										
15.	(24.3075 %)	-0-	(388 332)	201 447	185 077	20 377	164 286	2 221	166 507		
16.	TOTAL REVISED COSTS	1 985 913	-0-	1 030 191	946 477	104 209	840 152	11 360	851 512		
17.	OVERCHARGES: Total Costs (Line 3 LESS 13)								1 702		
	Applied Overhead (Line 4 LESS 14).								1 943		
	TOTAL.								3 645		

ENCLOSURE-5, Sheet 3 of 5 (1978)

FEDERAL EMPLOYEES HEALTH BENEFITS PLANS (FEHBP)

COMMENTS ON THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S DRAFT OF AUDIT REPORT NO. E-003-D, DATED MARCH 16, 1982
ADJUSTMENTS TO ADMINISTRATIVE COSTS
For the Calendar Year Ended December 31, 1979

Schedule - 12:00-R

Particulars (1)	Agency's Combined Costs (2)	Overhead (3)	Sales Dept (4)	Group Claims Department Total (5)	Group Claims Department Non-FEHBP (6)	Group Claims Department FEHBP (7)	FEHBP Direct Costs (8)	FEHBP Total Costs (9)	AUDIT Report Item No. (10)	AUDIT Inquiry No. (11)
1. Original Reapportionment Ratios				100.0000%	9.0000%	91.0000%	-	-		
2. Revised Reapportionment Ratios				100.0000%	7.5497%	92.4503	-	-	4	B-8
3. Original Costs	2 348 912	430 567	861 373	1 002 971	90 277	912 694	54 001	966 695		
4. Applied Overhead										
5. (22.4447 %)	-0-	(430 567)	193 333	225 114	20 262	204 852	12 120	216 972		
6. TOTALS	2 348 912	-0-	1 054 706	1 228 085	110 539	1 117 546	66 121	1 183 667		
7. ADJUSTMENTS PER AUDIT:										
3. Depreciation:										
a. Per Audit	15 458	2 264	7 167	6 027	-	-	-	-		
b. Per Books	14 164	1 995	6 858	5 311	-	-	-	-		
c. Net Adjustment	1 294	269	309	716	-	-	-	-	5	B-4
9. Legal & Accounting	-	(1 200)	-	-	-	-	1 200	1 200	7	Agency
0. Legal & Accounting	-	(2 100)	2 100	-	-	-	-	-	8d	B-12
1. TOTAL ADJUSTMENTS	1 294	(3 031)	2 409	716	-	-	1 200	1 200		
2. ADJUSTED ORIGINAL COSTS*										
3. (Line 3 (+)(-) 11)	2 350 206	427 536	863 782	1 003 687	75 775	927 912	55 201	983 113	4	B-8
4. Applied Overhead - Revised										
5. (22.2366 %)	-0-	(427 536)	192 076	223 185	16 849	206 336	12 275	218 611		
6. TOTAL REVISED COSTS	2 350 206	-0-	1 055 858	1 226 872	92 624	1 134 248	67 476	1 201 724		
7. * ADJUSTED REAPPORTIONMENT		-	-	(716)	14 502	15 218	-	15 218		
3. UNDERCHARGE: Total Costs (Line 3 LESS 13)								(16 418)		
9. Applied Overhead (Line 4 LESS 14)								(1 639)		
0. TOTAL								(18 057)		

(6/2/82)

J O S E P H   E.   J O N E S   A G E N C Y

FEDERAL EMPLOYEES HEALTH BENEFITS PLANS (FEHBP)

COMMENTS ON THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S DRAFT OF AUDIT REPORT NO. E-003-D, DATED MARCH 16, 1982

ADJUSTMENTS TO ADMINISTRATIVE COSTS

For the Calendar Year Ended December 31, 1980

Schedule - 12:00-R

ENCLOSURE-5, Sheet 5 of 5

	Particulars	Agency's Combined Costs	Overhead	Sales Dept	Group Claims Department			F E H B P		A U D I T	
					Total	Non-FEHBP	FEHBP	Direct Costs	Total Costs	Report Item No.	Inquiry No.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	Original Reapportionment Ratios				100.0000%	5.8079%	94.1921%	-	-		
2.	Revised Reapportionment Ratios				-	-	-	-	-		
3.	Original Costs	2 925 508	492 596	858 238	1 546 612	89 825	1 478 496	6 353	1 484 849		
4.	Applied Overhead	-0-	(492 596)	173 769	313 146	18 187	299 354	1 286	300 640		
5.	(20.2472%)										
6.	TOTALS	2 925 508	-0-	1 032 007	1 859 758	108 012	1 777 850	7 639	1 785 489		
7.	ADJUSTMENTS PER AUDIT:										
8.	Officers Salaries:										
9.	Charged	52 000	(52 000)							3	B-11
10.	Chargeable *	(52 000)	10 148	8 998	32 854	1 908	30 946	-0-	30 946		
11.	Postage										
12.	Charged				40 552	(2 355)	(38 197)	=0-	(38 197)		
13.	Chargeable				(40 552)	-0-	40 552	-0-	40 552		
14.	TOTALS	-0-	(41 852	8 998	32 854	(447	33 301	-0-	33 301		
15.	ADJUSTED ORIGINAL COSTS										
16.	(Line 3 (+)(-) 14)	2 925 508	450 744	867 236	1 579 466	89 378	1 511 797	6 353	1 518 150		
17.	Applied Overhead - Revised										
18.	(18.2136 %)	-0-	(450 744	157 955	287 678	16 279	275 353	1 157	276 510		
19.	TOTAL REVISED COSTS	2 925 508	-0-	1 025 191	1 867 144	105 657	1 787 150	7 510	1 794 660		
20.	UNDERCHARGED: Total Costs (Line 3 LESS 16)								(33 301)		
21.	Applied Overhead (Line 4 LESS 17)								24 130		
22.	TOTAL								9 171		

*/ Distributed on Direct Salaries and Reapportionment Ratios; i.e.
Direct Salaries 19.515% 17.305% 63.180%
Reapportionments (See line 2 above.

(6/2/82)

ROUTING AND TRANSMITTAL SLIP

Date

TO: (Name, office symbol, room number, building, Agency/Post)	Initials	Date
1. [redacted]		
2.		
3.		
4.		
5.		

STAT

	Action		File		Note and Return
	Approval		For Clearance		Per Conversation
	As Requested		For Correction		Prepare Reply
	Circulate		For Your Information		See Me
	Comment		Investigate		Signature
	Coordination		Justify		

REMARKS

Ed,

Attached is a copy of the OPM report of audit of the Joseph E. Jones Agency of Mutual of Omaha which I mentioned to you last week. I have also attached a copy of GEHA's contract with OPM.

We are ready to meet with you at any time you need additional information or wish to discuss your initial appraisal of the situation.

DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions

STAT

FROM: (Name, org. symbol, Agency/Post)	Room No.—Bldg.
[redacted]	Phone No.

5041-102 — OPTIONAL FORM 41 (Rev. 7-76) Prescribed by GSA FPMR (41 CFR) 101-11.206

☆ GPO : 1981 O — 361-529 (148)

United States
Office of Personnel Management
Washington, D.C. 20415

In Reply Refer To: Your Reference:

EXHIBIT 3

AUDIT REPORT

Federal Employees Health Benefits Program
Joseph E Jones Agency - Administrator:

Government Employees Health Association, Inc.
Association Benefit Plan
Plan 42, Contract CS 1065

Washington, D.C.

Report No. E-83-001- Ex. 3 Date FEB 18 1983

Joseph W. Lowell, Jr.
Inspector General

Approved For Release 2006/02/10 : CIA-RDP86-00964R000200090001-6

Was GEHA advised of ~~progress~~ of the audit or given copy of draft of 16 Mar 82.

page 7 - service charge payable to sponsoring org who are responsible for distribution to underwriter or otherwise. NO

Is "Management Fee" spelled out as such in accounting statements (our copies)??

What years did we (GEHA) pay Jones $7,000, $? and when did we cease payment to Jones. Does our current contract read "plus $7,000"?

MESSAGE

74	7K
75	7K
76	7K
77	3500
78	1500

Audit by independent accounting firm

RECEIVED BY

DATE 18 APR 1983 TIME 1605

63-109

★U. S. GPO: 19[illegible]-311-156/1

STANDARD FORM 63 (Rev. 8-76)
Prescribed by GSA
FPMR (41 CFR) 101-11.6

CONTENTS

I. INTRODUCTION

In November, 1981, we completed an audit of the Federal Employee Program (FEP) operations at the Joseph E. Jones Agency for the years 1976 through 1980. The audit was conducted pursuant to 5 U.S.C. Ch. 89; 5 CFR Ch. 1, Part 890; 41 CFR 1-15 and the terms of Contracts CS 1061, 1062, 1065 and 1164.

The Joseph E. Jones Agency is composed of three affiliated companies as follows:

Joseph E. Jones Partnership,
United Insurance Services, Inc. and
International Insurance Counselors, Inc.

While the total charges to the FEP contracts are generated by all three of the affiliated companies, the principal contract administrator appears to be Joseph E. Jones, individually (i.e. none of the affiliated companies is contractually responsible for the administration of the FEP contracts). Currently the Administrator is servicing the AFGE Health Benefit Plan, the Foreign Service Benefit Plan and the Association Benefit Plan. Accordingly, FEP subscriber claims submitted to these Plans are processed and paid by the Administrator. Until January 1, 1978, the Administrator also serviced the Alliance Health Benefit Plan. Currently the Alliance Plan is administered by the Mutual of Omaha at its Group Claims Office in Rockville, MD.

The Plans are all underwritten by the Mutual of Omaha Insurance Company, Omaha, Nebraska. Joseph E. Jones (individually) is the Mutual of Omaha - Washington Metropolitan Area General Agent (i.e. all Mutual of Omaha insurance written in the Washington metropolitan area is written through Joseph E. Jones).

The Association Benefit Plan is sponsored by the Government Employees Health Association, Inc. (GEHA) under OPM Contract CS 1065. The Association Benefit Plan is open only to members of GEHA and no associate memberships are offered to other Federal employees. The Administrator processes and pays only those claims submitted by retired members of GEHA. Health claims for active members of GEHA are processed and paid under other arrangements.

Joseph E. Jones has acted as Administrator for these Plans since the inception of the FEP program. Previous audits of the Administrator's operations were reported in conjunction with audits of the sponsoring Organizations and all previous audit findings have been resolved.

We issued a Draft audit report (Report No. E-82-003 D) detailing the tentative findings from our audit on March 16, 1982. The Administrator responded to the Draft report on June 11, 1982. The Administrator's comments on the audit findings were considered in the preparation of this report and are included, in their entirety as Appendix A to this report.

II. SCOPE OF AUDIT

The audit was performed in accordance with generally accepted Government auditing standards and included such tests of the accounting records and such other auditing procedures as were considered necessary in the circumstances.

The audit consisted of a survey and review of the claims processing systems and procedures used at the Joseph E. Jones Agency to determine if benefit payments are substantially in compliance with allowable benefits offered by the Plans and that such payments were made in a timely and efficient manner. The review of the Administrator`s claims processing systems was accomplished through the evaluation of a survey questionnaire developed by OPM`s Insurance Audits Division. The survey questionnaire was based on provisions of the Contracts and Brochures involved and on OPM`s regulations as contained in Part 890 of Title 5 of the Code of Federal Regulations.

In addition, we selectively reviewed administrative expenses charged to the Contracts for the years 1976 through 1980. Our review of administrative expenses was based on the terms of the Contract and the cost principles prescribed by 41 CFR, Part 1-15 to determine the allowability, allocability and reasonableness of the charges to FEP.

The objectives of our audit were to determine whether costs were charged to the FEP and services were provided to FEP subscribers in accordance with the terms of the Contracts. We also sought to determine if the Administrator`s policies and procedures resulted in efficient, effective and economical operations.

III. FINANCIAL DATA

ASSOCIATION BENEFIT PLAN

	1976	1977	1978	1979	1980	Total
HEALTH BENEFITS PAID BY CONTRACT YEAR						
	$9,667,318	$11,263,039	$12,590,008	$13,213,792	$14,991,929	$61,726,086
ADMINISTRATIVE EXPENSE CONTRACT CHARGES (Joe Jones only)						
	$ 75,017	$ 85,206	$ 176,950	$ 224,131	$ 329,638	$ 890,942
Acct Statement Figures	75,016	85,203	176,950	225,688	330,320	

IV. SUMMARY OF RESULTS OF AUDIT

Our review of FEP operations performed by the Joseph E. Jones Agency resulted in the following:

1. Administrative Expenses

   a. FEP was improperly charged management fees of $541,673 during 1976 through 1980. The FEP contracts do not provide for a management fee charge and the amounts charged were unilaterally determined by the Administrator. (Audit Finding 1)

   b. For 1976 through 1978, the Administrator charged FEP $13,022 for rent which was in excess of the costs of ownership of the premises occupied. Such excess charges for rent are not allowed under the FPR`s. (Audit Finding 2)

   c. In 1976 and 1979, $75,522 in officers` salaries was inappropriately charged directly to FEP. The officers` salaries should have been allocated to FEP through overhead. (Audit Finding 3)

   d. FEP was overcharged $9,078 for reapportionment ratio errors in 1977 and 1979. (Audit Finding 4)

   e. FEP was overcharged for depreciation ($5,733 in 1977 and 1979) and rent ($3,404 in 1977) and was undercharged for legal and accounting expenses ($1,200 in 1977). (Audit Findings 5, 6 and 7)

   f. During 1977, 1978 and 1979, FEP overhead was inappropriately charged for legal and accounting expenses, and in 1978 FEP overhead was charged duplicate rent charges. (Audit Finding 8)

   g. Overhead adjustments due FEP as a result of items a through f amounts to $182,901. (Audit Finding 9)

   h. The Administrator needs to implement additional financial management techniques to enhance the financial management of FEP operations.

2. Claims Processing

   We found the Administrator`s claims processing policies and procedures to be generally satisfactory. Recommendations are made which we believe will more adequately identify (1) duplicate billings, (2) claims which are not medically necessary (3) worker`s compensation claims and (4) physical examinations. We also recommended changes in the procedures for determining reasonable and customary physician fees and in the administration of mental and nervous benefits.

V. AUDIT FINDINGS

A. ADMINISTRATIVE EXPENSES

1. Management Fees $541,673

For the years 1976 through 1980, the Administrator claimed, as an administrative expense against the FEP contracts, management fees of $541,673, as follows:

	1976	1977	1978	1979	1980	TOTAL
Management Fees	$56,467	$100,359	$92,651	$140,206	$151,990	$541,673

Our analysis of the management fee disclosed that the fee increased 169 percent over the five year period, although the number of subscribers decreased by 53 percent between 1977 and 1980. Alliance Plan passed from Jones to Mutual on 1/1/78

The Administrator's concept of management fee first appeared in 1974 following the OPM Contracting Officer's elimination of Agents' commissions from the health benefits contracts underwritten by Mutual of Omaha. Contracts in effect in 1972 and prior specifically provided for payment of commissions, based on a percentage of premiums, as allowable costs under the contracts. In 1972, the Contracting Officer informed all affected parties that commissions would no longer be allowed under the contracts after 1973, but in order to allow the underwriter and the agent time to accommodate the change, OPM [then the U.S. Civil Service Commission (CSC)] agreed to contract for a flat sum commission payment for 1973 equal to the amount of the commission allowed for 1972. The commissions were eliminated because CSC believed that there was insufficient justification for a percentage commission which increased in relation to premiums and which bore no relationship to the value of the agent's services. Further, CSC stated that the cost of any services that actually benefitted the FEP and was covered by the commissions could be recovered as a valid charge to the administrative allowance. The CSC estimated that the elimination of the commissions would save the program significant amounts of money in subsequent years.

The first year following the elimination of commission payments the Administrator introduced an annual management fee as an administrative expense under the contracts. During a 1981 meeting between the Contracting Officer and the Administrator's Comptroller, the Comptroller admitted that the management fee was introduced as a substitute payment for the Agent's commission which was eliminated from the contracts after 1973.

Harris Howard?? Accordingly, we believe that the Administrator's charges for management fees are inappropriate and are not consistent with the CSC's Contracting Officer's intent. The purpose of eliminating commissions from allowable costs under the contracts was to achieve a savings for the program by eliminating charges to the contracts which were not based on a benefits received concept.

In addition, from 1974 forward, provisions of the administered contracts provide for allowable charges as follows:

"Item	Amount
(i) Administrative Charges Organization	Actual, but not to exceed 2.6% of total subscription charges for the contract term. (Percentage allowance may vary under specific contract)
(ii) Administrative Charges Underwriter	Actual, but not to exceed 4.0% of total subscription charges for the contract term. (Percentage allowance may vary under specific contract)
(iii) Taxes	Actual
(iv) Service Charge	(Fixed dollar amount negotiated for each specific contract)" (Parenthesis added)

The Contract further states that, "`Administrative Charges` means the amount of expenses incurred in the administration of this contract including, but not limited to, the cost of maintaining the eligibility files for coverage under this contract, the cost of investigation and settlement of claims under this contract, and the cost of making accounting and statistical reports. Administrative expenses allocated to this contract will be actual, necessary, [illegible] on an equitable and reasonable basis, with proper justification and accounting support. The Federal Procurement Regulations, 41 CFR, Part 1-15, shall apply in the determination of acceptable administrative expenses."

As noted above, the contracts do not specifically recognize the role of the Administrator for either administrative charges or service charges. The Administrator (in practice) operates under the administrative charge allowance provided for the Underwriter. It should also be noted that the contracts only provide for a profit (service charge) that is payable to the sponsoring organizations who are responsible for distribution of the funds to the underwriter or otherwise (not controlled by OPM). For the years involved, the management fee (profit) claimed by the Administrator is profit over and above the amount provided for in the contracts and, therefore, represents a violation of the Contract.

Separate items in accounting statement ??

Service Charge

— We never see it — Mutual gets the money and takes their cut.

Apparently the resolution of the 1974-75 fees was handled between OPM and Jones without our concurrence.

It is our opinion, therefore, that any profit awarded to the Administrator should be applied against the profit provided for in the contracts, thereby reducing the amounts due to the Underwriter. In addition, we believe that any additional profits (in addition to the service charge) which are claimed by the Administrator or others under the contract must be approved in advance by OPM and should be formally recognized in the prime contract. We found no evidence that the concept or the amount of the Administrator's management fee was negotiated or approved by any of the principal parties to the contracts. It appears that both the concept and the amount of the charge was unilaterally determined by the Administrator.

Administrator's Comments:
(See Appendix A for the full text of the Administrator's Comments)

The Administrator stated that the auditors misinterpreted the intent and the effect of the Contracting Officer's elimination of commissions from the contracts in 1974. The Administrator contends that the change was primarily to change the method of payment of the commissions from a percentage of premiums to actual costs incurred in servicing the FEP. The Administrator takes issue with the auditor's statement that the elimination of commissions was intended to result in a savings to the program. The Administrator states that prior to 1974, the commissions were for "... the necessary services performed in administering the FEHBP" and that there was no objection to the elimination of the commissions "... providing payment was made on the basis of actual and necessary costs incurred in servicing the FEHBP". The Administrator quotes from the Contracting Officer's letter as follows:

> "The actual expenses incurred for identifiable services, whether performed by the agent or the underwriter, which are necessary to the administration of the contract and policy would be a valid charge to the administrative expense allowance."

The Administrator contends that the management fee is payment for necessary services and "... does not represent a profit...". The Administrator feels, however, that subcontractors are entitled to a profit and that such profits should not be included in the service charge payable under the contract. The Administrator believes that payment of the management fee is in full compliance with 41 C.F.R., Part 1-15 because that part specifically refers to payments to subcontractors and authorizes costs as an allowable charge to the contract to the extent that the allowance is consistent with the relevant subparts. The Administrator stated that the management fee has been the subject of negotiation between the Jones Agency, the contractors and the Contracting Officer. The Administrator then points out that the Contracting Officer, by letter dated February 5, 1981, accepted the concept of charging a management fee to the contract for 1974 and 1975.

Inspector General's (IG) Reply to Administrator's Comments:

We do not believe that we have misinterpreted the Contracting Officer's intent in eliminating commissions from the contract. The facts surrounding the contract change clearly show that the purpose of the change was to eliminate unnecessary charges from the contract and that savings would be realized from the change. The anticipation of savings under the contract is evidenced by an internal memo from Mr. W. P. Gulledge (formerly Chief of Employee Organizations Division), dated March 1, 1973, as follows:

> "We have also entered into agreements with carriers who have a commission to pay a flat sum for 1973, equal to the amount of the commission in 1972. ... We have informed those carriers that it is our intention to eliminate commissions for 1974, and that any payments to brokers will have to come out of the insurance and/or service charge.
>
> ... All of these actions amount to a savings in the Program of approximately $2,499,100."

As can be seen from the above, a savings to the FEP was anticipated upon eliminating commissions from the contracts. The Contracting Officer did, however, inform all parties that any costs which are necessary for the administration of the contract and which were previously included in commissions would constitute allowable administrative charges to the contract. This, of course, means that such charges would require documentation and support to the same extent as other administrative charges. The Administrator states several times in his comments that the commissions (and now the management fee) were for "actual and necessary costs incurred in servicing the FEHBP." However, the Administrator has not provided any documentary evidence of the services provided or the cost of such services.

Although the Administrator contends that the management fee does not represent profit, we believe that the amount is purely profit and we continue to believe that the only profits allowable under the contracts are represented in the contracts as service charge. The service charge is paid to the contractors (Organizations) for distribution as they see fit. OPM has no control on the use of the service charge awards. Any profit to be paid to the administrator, therefore, should be paid from the service charge. This IG position is substantiated by the above quoted W. P. Gulledge memo (last sentence, first paragraph) and is also based on correspondence of former high level OPM officials who addressed the problem of profit for third party administrators. In this regard, we note that Mr. Ruddock (former CSC Contracting Officer) informed another Employee Organization plan that third party administrator profit shall be paid from the negotiated flat-sum service charge. In addition, early memos from Mr. Sol Papperman (former Chief of Legislative and Policy) and from Mr. Travis Mills (former Asistant General Counsel) set forth the principle that charges for profits do not constitute allowable administrative charges to the contracts and that the only profits provided for are in the form of the negotiated flat-amount service charge. We add to the above, that established and proper contract accounting principles dictate that profits be accounted for separately from administrative and other costs. Sections 3.5 of the audited contracts define administrative expenses in accordance with such principles.

Finally, the Administrator states that the management fee has been negotiated with the contractors and with OPM. The Administrator, however, did not provide any evidence of negotiations and we continue to believe that the amounts charged were unilaterally determined by the Administrator.

The Contracting Officer's allowance of the management fee charges for 1974 and 1975 was based on advice from the Insurance Audits Division contained in a memorandum dated February 10, 1981, as follows (in part):

> "For the years involved (1974 and 1975), we felt that the combination of salary and management fee paid to Mr. Jones resulted in compensation that was somewhat high, but we agreed to accept the amounts for those years because of the period involved and because our opinion of reasonable compensation would not be significantly less. Our acceptance of the amounts for 1974 and 1975 does not constitute our concurrence of the management fee concept or its method of computation."

Recommended Corrective Action:

We recommend that the Contracting Officer disallow the management fees (and applicable overhead) charged to the FEP contracts by the Administrator for the periods 1976 through 1980. The amounts so charged should be credited to FEP on the next Annual Accounting Statements submitted by the administered Organizations.

2. Rent versus Ownership (Jones concurred) $13,022

Our audit disclosed that for the years 1976 through 1978, the Administrator overcharged FEP, as direct charges against the FEP contracts, $13,022 for rent which was in excess of the costs of ownership, as follows:

	1976	1977	1978	TOTAL
Excess of Rent over Ownership (Direct)	$ 772	$10,548	$1,702	$13,022

Questioned overhead charges applicable to the unallowable rent overcharges are included in Audit Finding A.9. (Overhead Adjustments).

Administration of the FEP programs is conducted in their entirety at 1666 Connecticut Avenue, N.W., Washington, D.C.. The ownership of the building at this location is considered to be under common control of ownership with the Administrator, Joseph E. Jones. The building is owned jointly by the Joseph E. Jones Partnership (as a partnership landlord) and a corporation. The partners of the Joseph E. Jones Partnership are Joseph E. Jones and his wife, each partner owning a 43 percent interest in the building. The remaining 14 percent ownership of the building is held by a corporation which, in turn, is also fully owned by Joseph E. Jones and his wife.

Since the building is wholly owned (directly and indirectly) by Joseph E. Jones, we believe that the requirements of the Federal Procurement Regulations (FPR`s), 41 CFR, Part 1-15.205-34(g), are applicable. These provisions state, in part:

> "Charges in the nature of rent between any division, subsidiary, or organization under common control are allowable to the extent such charges do not exceed the normal costs of ownership, such as depreciation, taxes, insurance, and maintenance (excluding interest or other unallowable costs pursuant to this Part 1-15)..."

Accordingly, we believe that FEP contracts administered by Joseph E. Jones were overcharged $13,022 for rent in excess of ownership costs during 1976, 1977 and 1978.

Administrator`s Comments:

The Administrator concurred with the finding.

Recommended Corrective Actions:

a. We recommend that the Contracting Officer disallow $13,022 for the rent charged in excess of the cost of ownership (plus applicable overhead charges) which have been charged to FEP contracts administered by the Administrator.

b. This amount disallowed should be credited to the administered FEP contracts on the next Annual Accounting Statement submissions.

3. Officers` Salaries $75,522

During 1976 through 1979, the Administrator inappropriately charged a portion of officers` salaries as a direct charge to the FEP contracts. Officers` salaries are, by their nature, considered to be more properly charged as indirect costs through overhead allocations. The incorrect charges, for the years involved are:

	1976	1977	1978	1979	TOTAL
Officers` Salaries (Direct)	$14,947	$22,079	$15,328	$23,168	$75,522

Questioned overhead resulting from the improper charging of officers` salaries as direct charges to the FEP contracts are included in Audit Finding A.9 (Overhead Adjustments).

Administrator`s Comments:

"... officers salaries should have been apportioned on the basis of the Direct Salaries Method which is acceptable under the principles of cost accounting adopted by this Agency as of 1974. This method not only relates management`s dollars to those of production, but also maintains consistency - which is a fundamental requirement specified by the Federal Procurement Regulations.

"In recognition of the above comment, officers salaries for 1980 were adjusted on the basis of Direct Salary Ratios. This produced an undercharge of $30,946 which, together with an adjusted overhead credit credit (sic) of $22,424, will be included with our Annual Accounting Statement for 1982 as a prior year`s adjustment of $8,522 (increase)."

Inspector General`s Reply to Administrator`s Comments:

As stated in the audit finding, we determined that the Administrator improperly charged FEP contracts $75,522 for officers` salaries for 1976 through 1979 as a result of charging officers` salaries directly (i.e. via the Direct Salary Ratio) to the FEP. For 1980, the Administrator had charged officers` salaries according to our recommended method, but in his comments has stated that 1980 will be adjusted to the Direct Salary Ratio. Officers` salaries, by their very nature, are more properly classified as indirect charges and should have been allocated to FEP contracts through overhead [distributed on a ratio of total overhead costs to total direct costs (total costs less overhead costs)]. The Administrator`s overhead pool is subdivided into three departments: Administrative, Controller and General Services. Mr. Jones, in his capacity as Chief Operating Officer of the entire business, should properly charge his salary to the Administrative overhead pool since this pool collects costs which generally benefit the total organization. Mrs. Jones, on the other hand, works primarily in the accounting area and should properly be charged to the Controller overhead pool.

We believe that charging officers` salaries to overhead is appropriate and is generally recognized throughout the cost accounting profession. Company officers can not normally identify their efforts to any final cost objective since their time is spent indiscriminately managing all lines of the company`s business. All costs associated with such officials should, therefore, be allocated to final cost objectives on a basis that is all encompassing and which equitably assigns the costs to all business of the company.

We do not agree that the Direct Salary Ratio used by the Administrator is an appropriate basis for the distribution of officers` salaries. Direct salaries, in this case, are heavily weighted toward the FEP programs and, therefore, would cause a disproportionate share of officers` salaries to be charged to the FEP. The actual time expended by the officers in support of the FEP is considerably less than that derived from the proposed Direct Salary Ratio method.

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to credit FEP $75,522 (plus applicable overhead) for improper direct charges of officers' salaries on the next Annual Accounting Statements submitted by the administered Plans.

4. Reapportionment Ratio Errors $9,078

The Joseph E. Jones Agency uses a ratio of Federal program drafts to total program drafts to allocate costs of the Group Claims Division to its Federal and Non-Federal segments. In 1977 and 1979, incorrect statistics were used in calculating the ratio.

For 1977, the draft count for the "School" line of business was not included in the draft count for the Non-Federal segment and the GEHA-Active line of business was improperly included in the Federal segment. In developing the ratio of Federal program drafts to total program drafts for 1979 reapportionment allocations, the Administrator erroneously included GEHA-Active drafts in the Non-Federal segment. Due to their special nature, GEHA-Active drafts should not be included in the draft counts. As a result FEP was overcharged $21,032 in 1977 and undercharged $11,954 in 1979.

Questioned overhead resulting from the reapportionment ratio errors described above are included in Audit Finding A.9. (Overhead Adjustments).

Administrator's Comments:

The Administrator concurred with the audit finding. However, in computing the amount of the finding, the Administrator eliminated costs questioned in findings #1 and #3 with which they did not agree.

Mgt Fees re officers salaries

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to credit the appropriate FEP Special Reserves $9,078 (plus applicable overhead) in order to adjust 1977 and 1979 reapportionment charges to the proper amounts.

5. Depreciation Charges $5,733

Our analysis of depreciation charges from 1976 through 1980 disclosed allocation errors in CY 1977 and 1979. In 1977, total depreciation charges were not adjusted for auto and boat depreciation before allocation to FEP. This error resulted in a $6,394 overcharge in 1977. In addition, FEP direct charges for depreciation expense in 1979 was understated by $661.

Overhead adjustments resulting from the improper depreciation charges are included in Audit Finding A.9 (Overhead Adjustments).

Administrator's Comments:

The Administrator concurred with the audit finding.

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to credit FEP contracts administered with $5,733 (plus applicable overhead) on the next Annual Accounting Statements to adjust for the incorrect depreciation charges.

6. Rent Allocations $3,404

In 1977, the Federal Claims Division was directly charged $3,404 for rental charges that should have been directly charged to the Non-Federal Division.

Overhead adjustments resulting from improper rent direct charges are included in Audit Finding A.9 (Overhead Adjustments).

Administrator's Comments:

The Administrator concurred with the audit finding.

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to credit the FEP contracts administered with $3,404 (plus applicable overhead) for inappropriate rent on the next Annual Accounting Statements submitted for the administered Plans.

7. Legal and Accounting Charges $(1,200)

Direct charges to FEP for legal and accounting in 1979 were understated by $1,200.

Appropriate overhead adjustments for these undercharges to the FEP contracts is included in Audit Finding A.9 (Overhead Adjustments).

Administrator's Comments:

The Administrator concurred with the audit finding.

Recommended Corrective Action:

We recommend that the Contracting Officer allow the Administrator to charge FEP contracts an additional $1,200 (plus applicable overhead) on the next Annual Accounting Statement submissions.

8. Inappropriate Overhead Charges

a. Rent Allocation

In 1978, the Federal Claims Division was improperly allocated $908 of rental charges as a result of including duplicate charges in the overhead expense pool. Accordingly, FEP contracts were overcharged a portion of the $908 charge in 1978.

b. Legal and Accounting Charges

We determined that charges in the amount of $2,650 for the preparation of Mr. Jones` personal income tax returns were improperly included in legal and accounting charges for 1977. Accordingly, FEP Contracts were overcharged a portion of the $2,650 in 1977.

In 1978, $1,950 in accounting fees for the dissolution and liquidation of Joseph E. Jones, Inc. was improperly included in the total charges for legal and accounting fees allocated through overhead. The FPR`s (41 CFR 1-15.205-23) provide that reorganization costs should not be charged to Government contracts, as follows:

> "Expenditures in connection with (a) planning or executing the organization or reorganization in the corporate structure of a business, including mergers and acquisitions, or (b) raising capital , are unallowable. Such expenditures include, but are not limited to , incorporation fees and costs of attorney, accountants, brokers, promoters and organizers, management consultants and investment counselors, whether or not employees of the contractor." [41 CFR 1-15.205-23]

For 1979, legal and accounting fees charged to overhead included unallowable charges totalling $2,100 resulting in an overcharge to FEP for a portion of the $2,100

Adjustments for these items are included in Audit Finding A.9 (Overhead Adjustments).

Administrator`s Comments:

The Administrator concurred with the audit finding.

Recommended Corrective Action:

Since the items in this finding are the result of inappropriate charges to the overhead expense pool, implementation of the Recommended Corrective Action for Audit Finding A.9 (Overhead Adjustments) will result in proper adjustment for these items.

9. Overhead Adjustments $182,901

As a result of Audit Findings 1 through 8 (above), the following adjustments to FEP overhead are appropriate:

Year	Questioned Overhead
1976	$ 13,446
1977	21,357
1978	38,687
1979	46,464
1980	62,947
Total	$182,901

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to credit the appropriate FEP Special Reserves $182,901 on the next Annual Accounting Statement in order to adjust 1976 through 1980 overhead charges to the proper amounts.

10. Financial Management

Our review of the Administrator's system of financial management disclosed that procedures have not been established which provide for budgeting techniques or which provide for an independent audit of the financial records.

Administrative costs associated with the Administrator's Federal programs runs in excess of one million dollars annually and are considered to be significant enough to require proper financial management control. In this regard, the Administrator should prepare annual (at minimum) budgets of the major expense areas based on past experience and reasonable projections of future activities. Actual performance during the year should be measured against the budgeted amounts and variances should be investigated on a monthly or quarterly basis. Budget preparation and execution is considered to be a fundamental financial management tool which assists managers in controlling business expenditures and activities. To operate through a contract cycle without any plan of action could result in the expenditure of FEP funds for unnecessary purposes or could result in expenditures in excess of the ceiling limitation.

We believe that a system of budget preparation and execution is imperative for the proper financial management of the FEP.

Since the OPM Audits Division audit cycle allows a substantial time between repeat audits of participants in the program, we believe that the Annual Accounting Statements submitted to OPM should be audited by an independent accounting firm. Such a requirement is necessary to insure consistency and accuracy of reporting costs to OPM and to insure that internal controls are adequate and functioning properly. As above, we believe that administrative expenditures in excess of one million dollars annually represents a significant cost to the program and requires proper financial management. In addition, an independent audit of internal controls and other financial management techniques used to control the many millions of benefit dollars paid annually is necessary.

Administrator's Comments:

"Maintaining a budget requires reliable information on which to base a projection. In the field of health benefits there are no reliable statistics available for use in ascertaining the number of persons that will become enrollees of a health plan for any given period.

"Since Administrative costs that are chargeable to the FEHB plans are audited on a monthly basis, it would be impractical and costly to both the Agency and the Government to generate such an added expense."

Audits Division's Reply to Administrator's Comments:

Projections of health benefits dollars are actuarially determined and were not intended to be included in our recommendation. Our concern is for proper control and management of the more than one million dollars expended annually for administrative costs.

The audit referred to in our finding is that of an independent audit done on an annual basis. Any internal audit performed by the Administrator (either monthly or on some other cycle) should be continued but it is not a substitute for an independent audit performed by an outside, unrelated accounting firm.

Recommended Corrective Action:

We recommend that the Contracting Officer require the Administrator to establish more adequate financial management techniques in order to monitor FEP expenditures. We recommend that implementation of the two financial management techniques referred to above (Budgeting and Independent Audit) be considered as minimum requirements for adequate financial management.

B. CLAIMS PROCESSING

2. Manual System; Association Benefit Plan (Retirees)

The Administrator manually adjudicates claims for the Association Benefit Plan. Although these Plans are also underwriten by the Mutual of Omaha, they have not been put on Mutual's automated PCA system.

Our review of the claims processing policies and procedures of the manually adjudicated plans found the systems to be generally satisfactory and no significant deficiencies were noted. Two areas, however, as described below, are considered to be in need of improvement:

a. In the application of R & C criteria, adjudicators apply a 10 percent tolerance factor which permits full payments for claims which exceed R & C limits by 10 percent.

   We believe that this practice is contrary to the R & C requirements of the Contracts and results in claims experience being unnecessarily inflated.

b. In the application of mental and nervous benefits, the Plan treats the initial hospital admission for a mental and nervous patient as a "medical" visit, not subject to mental and nervous limitations as provided in the Foreign Service Benefit Plan. It is our opinion that the initial visit of a mental and nervous patient should be considered as a mental and nervous benefit, subject to Plan benefit limitations.

Recommendations:

a. We recommend that the Administrator discontinue the practice of allowing a 10 percent tolerance factor to R & C determinations and that R & C criteria be considered as the maximum amount payable on routine claims.

b. We recommend that the Administrator treat the initial hospital admission for mental and nervous patients as a mental and nervous benefit, subject to mental and nervous limitations.

Administrator's Comments:

The Administrator does not agree with the recommendations.

VI. ACCOUNTING STATEMENT ADJUSTMENTS

SCHEDULE A

TOTAL QUESTIONED CHARGES - JOSEPH E. JONES AGENCY

AUDIT FINDINGS	Year Charged in Annual Accounting Statement					
	1976	1977	1978	1979	1980	TOTAL
Administrative Expenses						
1. Management Fees	$56,467	$100,359	$92,651	$140,206	$151,990	$541,673
2. Rent versus Ownership	772	10,548	1,702	-	-	13,022
3. Officers` Salaries	14,947	22,079	15,328	23,168	-	75,522
4. Reapportionment Ratio Errors	-	21,032	-	(11,954)	-	9,078
5. Depreciation Charges	-	6,394	-	(661)	-	5,733
6. Rent Allocations	-	3,404	-	-	-	3,404
7. Legal and Accounting Charges	-	-	-	(1,200)	-	(1,200)
8. Inappropriate Overhead Charges	-	-	-	-	-	-
9. Overhead Adjustments	13,446	21,357	38,687	46,464	62,947	182,901
TOTAL	$85,632	$185,173	$148,368	$196,023	$214,937	$830,133

Adjustments are required for the amounts shown above on the next Annual Accounting Statements.

Additional adjustments are required for lost investment income on all findings computed to date funds are returned to FEP.

VI. ACCOUNTING STATEMENT ADJUSTMENTS

SCHEDULE B

ASSOCIATION BENEFIT PLAN

Year Charged in Annual Accounting Statement

AUDIT FINDINGS	1976	1977	1978	1979	1980	Total
	7	3.5	15			
Administrative Expenses						
1. Management Fees	$5,494	$5,259	$18,642	$25,826	$27,206	$82,427
2. Rent versus Ownership	75	553	342	-	-	970
3. Officers` Salaries	1,454	1,157	3,084	4,268	-	9,963
4. Reapportionment Ratio Errors	-	1,102	-	(2,202)	-	(1,100)
5. Depreciation Charges	-	335	-	(122)	-	213
6. Rent Allocations	-	178	-	-	-	178
7. Legal and Accounting Charges	-	-	-	(221)	-	(221)
8.9 Overhead Adjustments	1,308	1,119	7,784	8,559	11,268	30,038
TOTAL	$8,331	$9,703	$29,852	$36,108	$38,474	$122,468

Adjustments are required for the amounts shown above on the next Annual Accounting Statement.

Additional adjustments are required for lost investment income on all findings computed [illegible] returned to FEP.

STAT

Approved For Release 2006/02/10 : CIA-RDP86-00964R000200090001-6

7 March 1983

NOTE FOR: DD/Pers

Attached is a letter from OPM transmitting their audit report of the Jones Agency for the years 1976 through 1980. [redacted] STAT acknowledged receipt of the report by telephone, advising them that although the letter is dated 15 March, he did not receive it until 1 April). The audit involves all of Jones' FEHBP activity, not just our plan, and therefore has us facing the same issue as does the National Alliance of Postal and Federal Employees, the American Foreign Service Protective Association, and the American Federation of Government Employees. A number of issues have been raised in the audit. The Jones Agency has concurred in the audit findings of most of them - on two they are still in disagreement. They are: the allowing of management fees as an administrative expense, and the method of charging officers' salaries. The former is by far the most significant sum totalling $541,673 for all years for all plans, and $82,427 for ABP alone. The Audit Report and attachments make the case for both sides. Jones has his attorney working on the matter and wants our OK for them to deal directly with OPM. You may wish to get a legal opinion on that, but it seems a little academic at this point since they have been dealing with each other for over 2 years on this audit. (Note that OPM sent a draft to Jones dated 16 March 1982 and Jones responded to OPM on 11 June 1982).

It appears to me that somehow we have to determine the position the other 3 organizations are taking and work together. I see the major issue as: "Is the charging of a management fee an allowable expense or not?" Great legal minds are already working on that at OPM and at the Jones Agency. I don't know what we would do if we, the AFGE, AFSPA, and NAPFE are not in agreement.

I also think we need to reassess GEHA's relationship with OPM. Their letter says we are the prime contractor and it is up to us to resolve the contested points of the audit. While this has always been fact, it has not been practice. We have in the past relied on OPM to verify the accuracy of the annual accounting statement. OPM is now suggesting that an independent auditor be employed by us in the future to satisfy ourselves as to the accuracy and appropriateness of those statements. In view of OPM's position with respect to this audit, and the fact that years elapse before they perform their audits, it might be a good idea for us to hire an auditor. However, there is then the possibility that our auditor and the Jones Agency have irreconcilable differences, or we could rely on our auditor's OK only to find out 5 years later that this is at odds with OPM's audit staff. One thing is clear, auditing on a more current basis would certainly help.

STAT

Attachment

4 April 1983

NOTE FOR: Deputy Director of Personnel

STAT

FROM: [redacted]

1. Attached is a letter from OPM transmitting their recently concluded audit report of the Jones' Agency. Although the letter is dated 15 March, we did not receive it until 1 April. I have provided acknowledgement of our receipt to Kevin Burns' office via telephone advising them of late receipt. We have not had a chance to review this in depth, but thought you should be aware of its existence.

2. I have talked to Harris Havard about the report and he advises they also just received it. The report has been turned over to their lawyer. Harris stated that a number of the recommendations have been or are being resolved. However, the issue of the "management fees" assessed by Jones still is under contention. (Naturally, this is the issue involving the most money.) Harris also indicated they will get back to us with their recommendation for handling the response to OPM. His initial thought was that perhaps Jones and Mutual should deal directly with OPM. I think we need such input to determine what part, if any, we should be playing in this matter.

3. I told Harris we would wait for him to get back in touch before we took any action. In the interim, we will review the attached and prepare a summary of the recommendations and required actions for use in possible further discussion with Jones and OPM.

[redacted]

STAT

Attachment

ADMINISTRATIVE - INTERNAL USE ONLY

United States
Office of Personnel Management

Washington, D.C. 20415

MAR 15 1983

In Reply Refer To: CN

Your Reference:

STAT [redacted]

STAT [redacted]

Enclosed are four copies of the Office of Personnel Management's audit report No. E-83-001-Ex. 3, dated February 18, 1983, on your third party administrator, the Joseph E. Jones Agency. This audit was conducted by representatives of the Office of the Inspector General pursuant to Contract No. 1065, 5 CFR Chapter 1 Part 890 and 41 CFR Chapter 1.

I would appreciate an acknowledgement of your receipt of this report within 10 days.

This audit is one of four companion audits which examined the entire Federal Employees Health Benefit business of the Joseph E. Jones Agency for the years 1976 through 1980. Separate audit reports detailing findings relative to their plans are being concurrently sent to the following:

National Alliance of Postal and Federal Employees
American Foreign Service Protective Association
American Federation of Government Employees

The Government performed the audit of Joseph E. Jones' entire book of FEHBP business for reasons of efficiency and to ensure consistency in the audit process and uniformity in applying the findings to the various prime contractors. However, in resolving the findings the contracting officer may deal only with those parties with whom he has a contractual relationship, i.e. the prime contractor. As the prime contractor you are responsible for resolving the findings relative to your contract which are contained in the enclosed audit report.

While the Government will be looking to you to resolve the findings relative to your contract it should be pointed out that the same basic issues are repeated in the other audits - only the amount of the dollar findings vary because of the differences in the plans' sizes. Because of

CON 114-24-3
January 1980

the similarity of issues and the fact that they all involve one subcontractor, Mr. Larry Keck of Mutual of Omaha which has purchased the Joseph E. Jones Agency has agreed to act as the subcontractor's coordinator in resolving this series of audits.

Public Law 96-304 requires us to resolve all outstanding findings within six months of the date the audit is issued or August 17, 1983 in this instance. Please submit your comments, if any, within 45 days from receipt of this report.

Sincerely yours,

Kevin J. Burns

Kevin J. Burns
Assistant Director
for Insurance Programs

of Omaha
People you can count on
1666 Connecticut Ave. NW
Washington, DC 20009
Phone (202) 797-6700
C. E. ANDERSON, Administrative Assistant
J. C. WILFERT, Policy Service

June 11, 1982

Mr. Kevin J. Burns
U. S. Office of Personnel Management
Assistant Director for Insurance Programs
Washington, D. C. 20415

RE: Comments on Draft of Audit Report
No. 82-E 003-D, dated March 16, 1982

Dear Mr. Burns:

This is in reply to your letter dated March 16, 1982, which was received on April 14, 1982, requesting our comments on the draft of your audit report relative to our operations under the Federal Employees Health Benefits Program for the Calendar years 1976 through 1980.

Our comments appear under ENCLOSURE-1 in the same sequence as the findings on pages 6 through 13 of the audit report and are supported by EXHIBITS and Schedules under ENCLOSURES-2 through 5.

Should you have any questions on this matter, please do not hesitate to call me.

Sincerely,

Harris W. Havard

Harris W. Havard
Comptroller

HWH:bmw

5-ENCLS: (1) Comments on Draft of Audit Report
(2) EXHIBIT-A, Prior Year Adjustments
(3) EXHIBIT-B, Allocation of Prior Year Adjustments
(4) EXHIBIT-C, Statement of Over and Under Charges
(5) Schedules-12:00 R (1976 through 1980) Adjustments to Administrative Costs

Approved For Release 2006/02/10 : CIA-RDP86-00964R000200090001-6

Mutual of Omaha
People you can count on...

Address all correspondence to
JOSEPH E. JONES, General Agent
2550 Connecticut Ave., N.W.
Washington, DC 20009
Phone (202) 797-6700

E A MOYLE CLU Assistant Manager
H W HAVARD, Comptroller
R J LYONS, Claims Manager
M L EVERETT, Office Manager
C E ANDERSON, Administrative Assistant
J C WILFERT, Policy Service

June 11, 1982

U.S. Office of Personnel Management
Assistant Director for Insurance Programs
Washington, D.C. 20415

ATTN: Mr. Kevin J. Burns:

RE: Comments on Draft of Audit Report No. 82-E 003-D, dated March 16, 1982.

Dear Mr. Burns:

This is in reply to your letter dated March 16, 1982 requesting our comments on the draft of your audit report relative to our operations under the Federal Employees Health Benefits Program for the Calendar years 1976 thru 1980.

Our comments appear under ENCLOSURE-1 in the same sequence as the findings on pages 6 thru 13 of the audit report and are supported by EXHIBITS and Schedules under ENCLOSURES-2 thru 5.

Should you have any questions on this matter, please do not hesitate to call me.

Sincerely,

HARRIS W. HAVARD
Comptroller

5-ENCLS. (1) Comments on Draft of Audit Report.
(2) EXHIBIT-A, Prior Year Adjustments. . .
(3) EXHIBIT-B, Allocation of Prior Year Adjustments.
(4) EXHIBIT-C. Statement of Over & Under Charges.
(5) Schedules-12:00 R (1976 thru 1980) Adjustments. to Administrative Costs.

Approved For Release 2006/02/10 : CIA-RDP86-00964R000200090001-6

COMMENTS ON AUDIT REPORT NO. 82 - 003 - D, DATED MARCH 16, 1982

1. MANAGEMENT FEE $541,673

The finding under this item is unacceptable and no adjustment is necessary for the reasons given in the following paragraphs.

The auditors misinterpreted the intent and effect of Mr. Andrew Ruddock's letters that were addressed to representatives of the Federal Employees Health Benefits Plans (FEHBP) administered by the Joseph E. Jones Agency-herinafter referred to as the Agency. (Attachment No. 1).

The purpose of Mr. Ruddock's letter was to eliminate the method of paying for services on the basis of a percentage of premiums; and, to adopt the system of paying for the actual costs incurred in servicing the FEHBP. It was not expected, as the report states, that "savings" would accrue by eliminating "commissions" on the basis of services performed. This concept is neither mentioned in Mr. Ruddock's letter nor would it be proper not to pay for the necessary services performed on behalf of the FEHBP simply because the auditors believe a savings would accrue if "commissions" were eliminated.

Prior to 1974, the "commissions" received by the Agency were for the necessary services performed in administering the FEHBP. This is evident from the letters addressed to Mr. Ruddock by representatives of the FEHBP (American Federation of Government Employees) (AFGE) and (Government Employees Health Association) (GEHA). Both letters clearly state that necessary services are performed for "commissions" received by the Agency (Attachments 2 & 3).

These letters show that the sponsoring organizations and the Agency had no objection to the elimination of the method of paying for services on the basis of premiums, providing payment was made on the basis of actual and necessary costs incurred in servicing the FEHBP. This is precisely the intent of Mr. Ruddock's letter (Attachment-1).

Next to the last paragraph of his letter, Mr. Ruddock states that:

> "With respect to the agent's commission, we are glad the (sponsoring organization) is inclined to agree with us that the cost of his services should be paid out of the administrative expense allowance or insurance charge.
>
> The actual expenses incurred for identifiable services, whether performed by the agent or underwriter, which are necessary to the administration of the contract and policy would be valid charge to the administrative expense allowance. (emphasis supplied)."

The Management Fee charged by the Agency was in payment for necessary services performed by the Agency in administering the FEHBP contract and policy and is an allowable charge under the Federal Procurement Regulations.

This fee does not represent a "profit", therefore, we disagree with the audit report in that a subcontractor must provide his services at cost without a provision for a profit. There is nothing in the Federal Procurement Regulations (41 C.F.R., Part 1-15) specifying such a restriction under which no sensible subcontractor would agree to operate.

A reasonable "profit" made by the Jones Agency, as a subcontractor, should not be included in the service charge payable to the underwriter. It would be tantamount to require a subcontractor who supplies any service to the prime contractor to forego a reasonable profit as part of his charge because the prime contractor is entitled to a service charge or profit. This is an impractical notion and the audit report does not point to any Federal Procurement Regulations specifying such a restriction. In fact, 41C.F.R., 1-15(f) specifically refers to payments to subcontractors and authorizes costs as an allowable charge to the contract to the extent that the allowance is consistent with the relevant subparts of Part 1-15.

The Management Fee is for services provided by the Agency in administering the FEHBP; therefore, we disagree with the suggestion that the services of the subcontractors must be approved in advance by OPM and recognized by the prime contract. While there was no reference in the prime contract concerning the services to be provided by the Agency, OPM was well aware that such services were performed and knows that payment is due on a quantum meruit basis.

At the auditor's request during their examination of the Agency's operations for 1974 and 1975, a revised method of accounting for the Agency's costs chargeable to the FEHB Plansffor 1974 and 1975 (including a Management Fee) was submitted to OPM's audit staff on November 18, 1977, for approval. Neither an acknowledgement of their approval or disapproval was ever received by this Agency.

In January of 1979, we again submitted our worksheets for 1974 through 1978 to OPM's audit staff for review and approval. The audit staff, at the time, raised no questions concerning either the system or the amounts, including the Management Fee.

The Management Fee has been the subject of negotiation between the Jones Agency, the contractor, and the contracting officer.

In January of 1981, representatives of OPM suggested that we submit a comparative statement of costs for 1974 and 1975 to OPM showing the FEHB Plans' total costs reduced by the Management Fee and officers salaries; and, increasing the balance by 10 percent. In response to this request a comparative statement of costs for 1974 through 1979 was presented to OPM staff for discussion and comment. (Attachment-4).

On February 5, 1981, Mr. Kevin J. Burns of OPM, (the contracting officer accepted the concept of charging a Management Fee to the FEHBP for 1974/1975). (Attachment-5). Since the Management Fee was allowable in 1974/1975, it follows that it should also be allowable for ensuing periods. — see last para of attach #5. Not so

Although the audit report only questions the propriety but not the reasonableness of the Management Fee, we are prepared to defend the latter as a necessary cost for the proper administration of the FEHBP.

Mr. [illegible]

J O S E P H   E.   J O N E S   A G E N C Y

FEDERAL EMPLOYEES HEALTH BENEFITS

COMMENTS ON AUDIT REPORT NO. 82 - 003 - D, DATED MARCH 16, 1982

In summary, the Management Fee should be allowed because:

it is a reasonable and necessary cost of administering the FEHB Plans;

it was allowed by the contracting officer for 1974/1975;

the audit report neither substantiates its findings nor provides any reference to provisions of the Federal Procurement Regulations in its support;

No questions were raised by OPM's staff on this matter and this led us to believe that there was an advanced agreement on the propriety of the Management Fee and the method for its computation under C.F.R. 15.107; and,

We believe that representatives of OPM had ample time to address the matter in 1977 when an agreement could have been reached to resolve the problem prior to the release of subsequent Annual Accounting Statements.

Approved For Release 2006/02/10 : CIA-RDP86-00964R000200090001-6

UNITED STATES CIVIL SERVICE COMMISSION

BUREAU OF RETIREMENT, INSURANCE, AND OCCUPATIONAL HEALTH

WASHINGTON, D.C. 20415

IN REPLY PLEASE REFER TO RI:INS:E

YOUR REFERENCE

NOV 1 1972

Mr. Clyde M. Webber, National President
American Federation of Government Employees
1325 Massachusetts Avenue, N.W.
Washington, D. C. 20005

Dear Mr. Webber:

This refers to my letter of June 23, 1972, and Mr. Griner's reply of August 21, 1972, relating to the risk charge and commission provisions contained in the contract between the American Federation of Government Employees and the United States Civil Service Commission. We have, in this connection, carefully considered his letter, the letter of Mr. A. W. Randall dated August 8, 1972, and the letter of Mr. Joseph E. Jones dated July 12, 1972.

We appreciate your and your underwriter's agreement to change the term "risk-charge" to "insurance charge" and the amount thereof to a flat sum. The term "insurance charge" is acceptable to us but the flat-sum charge of $108,500 for 1973 proposed by the underwriter is not. In our letter of June 23, 1972, we noted that the Commission expects this charge to be a lower amount than in 1972 and proposed a charge for 1973 of $50,000. In view of the justification for the charge contained in your underwriter's letter of August 8, 1972, we now counterpropose a flat charge of $86,400 for 1973. This is a 10% reduction from the estimated $96,000 charge for 1972.

With respect to the agent's commission, we are glad the AFGE is inclined to agree with us that the cost of his services should be paid out of the administrative expense allowance or insurance charge. The actual expenses incurred for identifiable services, whether performed by the agent or underwriter, which are necessary to the administration of the contract and policy would be a valid charge to the administrative expense allowance. After 12 years, we see very little justification for a percentage commission, which increases as total premium increases and bears no necessary relationship to the value of the agent's services. Our present intention, therefore, is to eliminate the payment of a

RECEIVED AFGE

1972

MAIL ROOM

THE MERIT SYSTEM—A GOOD INVESTMENT IN GOOD GOVERNMENT

ATTACH-1.1

commission as a charge against our contract for 1974. To give you, your underwriter and agent time to accommodate to elimination of the commission, we are agreeable to contracting for a flat-sum commission payment for 1973 equal to the amount of the commission in 1972.

We would appreciate your prompt agreement to the proposals on the insurance charge and commission in this letter so we may proceed to amend our contract for 1973.

Sincerely yours,

Andrew E. Ruddock

Andrew E. Ruddock
Director

ATTACH- 1.2

NATIONAL PRESIDENT
EXECUTIVE VICE PRESIDENT
WASHINGTON, D. C.
DOUGLAS H. KERSHAW
NATIONAL SEC.-TREAS.
NATIONAL HEADQUARTERS
400 FIRST STREET, N.W.
WASHINGTON, D. C. 20001
737-4705

IN REPLY PLEASE REFER TO:

5/CSC

August 21, 1972

Mr. Andrew E. Ruddock, Director
Bureau of Retirement, Insurance, and
Occupational Health
U. S. Civil Service Commission
Washington, D. C. 20415

Re: RL:IMS:F

Dear Mr. Ruddock:

As requested in your letter of June 23, 1972, we have consulted with our underwriter, the Mutual of Omaha Insurance Company, in connection with the risk charge which is currently stated in Contract No. 1061 between the U. S. Civil Service Commission and the American Federation of Government Employees as 1.3% of total subscription charges for the contract term.

I am attaching a copy of a letter received from Mr. A. W. Randall, Executive Vice President of the Mutual of Omaha Insurance Company, in which he outlines the purpose of the risk charge and the reasons that the risk charge for the AFGE Health Benefit Plan would be considered minimal in relationship to the risk charge made to commercial risks.

Mr. Randall has indicated that he is agreeable to a change in terminology from "risk charge" to "insurance charge". He has also indicated their willingness to state this "insurance charge" as a flat dollar amount to be negotiated at the time the rate negotiations are made each year.

You will note that Mr. Randall has responded to your request that the flat-sum charge for the 1973 contract year be set at $50,000 with a counter-proposal that due to the negative balance in the special reserve account for the AFGE Plan as of December 31, 1971 amounting to $975,092 that the flat-sum charge for 1973 be set at $108,500.

ATTACH-2.1

TO DO FOR ALL THAT WHICH NONE CAN DO FOR HIMSELF

The AFGE Health Benefit Plan has a sizeable negative [illegible] balance as of December 31, 1971, and the 1973 premium proposals, because of Price Commission policy, did not include any factor for recoupment of a deficit in the special reserve level. In addition, our rate negotiations with the Mutual of Omaha Insurance Company, which had been concluded prior to the receipt of your letter of June 23, 1972, were based on the assumption that there would be no change in the 1.3% risk charge which appeared in our contract for 1972.

Under no circumstances will we negotiate a flat sum "insurance charge" with the Mutual of Omaha Insurance Company which will be in excess of the current 1.3% risk charge. Should the proposed flat dollar amount of $108,500 for 1973 prove to be in excess of the 1.3% guideline [illegible] actual amount of the subscription charges have been determined for 1973, this factor will be taken into consideration in future negotiations. Based on the current estimate for 1973 subscription charges, it would not appear that the figure of $108,500 will exceed the 1.3% guideline.

With reference to the commission allowance of 0.38% of premium, we are attaching a copy of the justification for this commission allowance received from Mr. Joseph E. Jones, General Agent for the Mutual of Omaha Insurance Company in the Washington Metropolitan Area. Definite services on an administrative and consultation basis are provided to the AFGE Health Benefit Plan by Mr. Joseph E. Jones, but we are inclined to agree with you that payment for such services should be a matter between the Mutual of Omaha Insurance Company's Home Office and Mr. Jones and should be paid for out of the underwriter's administrative allowance or insurance charge, rather than as a stated commission allowance.

Should you require any additional information, please let me know.

Sincerely yours,

J. F. Griner
National President

Enclosure

cc: Norman Conway
Joseph E. Jones

ATTACH-3.2

Mr. Andrew E. Ruddock, Director
Bureau of Retirement, Insurance
and Occupational Health
U. S. Civil Service Commission
Washington, D. C. 20415

Dear Mr. Ruddock:

In my meeting with you on 14 December 1972, I raised the matter of the agent's commission discussed in paragraph 3 of your letter of 10 November 1972. I reported that Mr. Jones performs a series of special services necessary for security reasons which has led us to conclude that he is entitled to compensation beyond that which is approved for administrative expenses. Based on my conversation with you, I would like to submit the following counterproposal to the position stated in your letter of 10 November 1972.

We will discontinue the agent's commission as such.

Instead, I propose that you approve the sum of $7,000 in lieu of reimbursement on my certification that this amount properly compensates Mr. Jones for certain services of a security nature which he performs for our Plan.

Because of security considerations, these services cannot be documented for examination during your normal audit of our Plan's expenses, but I will retain in my office for your review at any time a detailed list of such services. We will bear the responsibility for continually reviewing these services rendered by Mr. Jones to our Plan to ensure that continuation of the payment of $7,000 as expenses is justified. At any time that we estimate these services at less than $7,000, I will so report to you.

We will instruct Mr. Jones to charge our Plan for time and expenses in supplying overt support to us. The special services described above will be those that cannot normally be documented and listed as expenses.

ATTACH. 3.1

We have been informed by the underwriter that it will not object to your counterproposal to establish a flat insurance charge of $69,300.

I shall await your approval of my proposal in paragraph one above before taking any further action.

Very truly yours,

[redacted] STAT

President

STAT DD/Pers/[redacted]

Distribution:

Orig & 1 - Adse

~~1~~ - Mr. Jos. Jones

1 - C/BSD

1 - DD/Pers/SP

ATTACH-3.2

Mutual of Omaha
People you can count on...

JOSEPH E. JONES, General Agent
1666 Connecticut Ave. NW
Washington, DC 20009
Phone (202) 797-6700

M. L. EVERETT Office Manager
C. E. ANDERSON, Administrative Assistant
J. C. WILFERT, Policy Service

January 26, 1981

Mr. George M. MacWhorter
Employees Organization Plan's Division
Office of Personnel Management
P. O Box 707
Washington, D. C. 20044

RE: 1974 & 1975 Administration Expense
of Joseph E. Jones Agency

Dear Mr. MacWhorter:

In response to your inquiry during your meetings with Mr. Havard and Mr. Kator, I am enclosing the expenses for 1974 and 1975 with the Management Fees and Officers Salaries allocated to the four Plans.

I am hopeful that this matter can be resolved in the near future.

Sincerely,

Joseph E. Jones
General Agent

JEJ:bmw

Enclosure

and Accounting.

ATTACH-4.1

Affiliated Companies:
United of Omaha ■ Omaha Indemnity ■ Companion Life Insurance Company ■ Omaha Financial Life Insurance Company ■ Tele-Trip Company ■ Mutual of Omaha Fund Management Company, sponsor of Mutual of Omaha Funds

J O S E P H E. J O N E S A G E N C Y

FEDERAL EMPLOYEES HEALTH BENEFITS PLANS

Review and Analysis of Agent's Reimbursements

For the Calendar Years Ended December 31, 1974 - 1979

Proposed revision to the method of charging the Plans for services of the Agent

			Total	AFGE	AFSPA	GEHA	NAPFE	Total	AFGE	AFSPA	GEHA	NAPFE
		$	1056,	1 9 7 4				42,925	1 9 7 7			
1.	Allocation Factors (%)		100.00	42.58	29.43	17.14	10.85	100.00	14.16	6.32	5.24	74.28
2.	Original Charges - Total		$ 427 968	$ 182 357	$ 118 162	$ 81 742	$ 45 707	$1611 064	$199 812	$ 89 159	$ 83 291	$1238 302
3.	LESS: Management Fee Charged to Plans	1/	32 507	13 841	9 568	5 572	3 526	100 359	14 212	6 338	5 260	74 549
	Officers' Salaries Charged to Plans	1/	17 439	7 426	5 132	2 989	1 892	22 079	3 127	1 394	1 157	16 401
4.	Balance		$ 378 022	$ 161 090	$ 103 462	$ 73 181	$ 40 289	$1488 626	$182 473	$ 81 427	$ 76 874	$1147 352
5.	Profit Allowance Proposed (10% X Line 4)		37 802	16 109	10 346	7 318	4 029	148 863	18 247	8 143	7 687	114 [illegible]
6.	Officer's Salary Proposed	2/	13 200	5 621	3 885	2 262	1 432	16 500	2 337	1 042	865	12 256
7.	Redetermined Charges		$ 429 024	$ 182 820	$ 117 693	$ 82 761	$ 45 750	$1653 989	$203 057	$ 90 612	$ 85 426	$1274 [illegible]
8.	Overhead Ratio (%)		27.53					15.71				
		$	3092.	1 9 7 5				15,561	1 9 7 8			
1.	Allocation Factors (%)		100.00	36.83	29.65	19.50	14.02	100.00	52.67	27.21	20.12	-
2.	Original Charges - Total		$ 488 805	$ 194 104	$ 139 688	$ 97 761	$ 63 252	$ 855 158	$ 449 503	$ 226 396	$ 176 [illegible]	$ 2 309
3.	LESS: Management Fee Charged to Plans	1/	33 345	12 281	9 887	6 502	4 675	92 651	48 800	25 210	18 641	-
	Officer's Salary Charged to Plans	1/	26 712	9 838	7 920	5 209	3 745	15 328	8 073	4 171	3 084	-
4.	Balance		$ 428 748	$ 171 985	$ 115 881	$ 86 050	$ 54 832	$ 747 179	$ 392 630	$ 197 015	$ 155 225	$ 2 309
5.	Profit Allowance Proposed (10% X Line 4)		42 875	17 199	11 588	8 605	5 483	74 718	39 263	19 701	15 523	231
6.	Officer's Salary Proposed	2/	14 100	5 193	4 181	2 750	1 976	17 700	9 322	4 816	3 562	-
7.	Redetermined Charges		$ 485 723	$ 194 377	$ 131 650	$ 97 405	$ 62 291	$ 839 597	$ 441 215	$ 221 532	$ 174 210	$ 2 540
8.	Overhead Ratio (%)		25.90					24.53				
		$	15980	1 9 7 6				38,441	1 9 7 9			
1.	Allocation Factors		100.00	24.33	13.14	9.73	52.80	100.00	58.69	22.89	18.42	-
2.	Original Charges - Total		$ 792 352	$ 190 957	$ 102 610	$ 85 416	$ 413 369	$1183 667	$ 690 596	$ 267 [illegible]	$ 224 [illegible]	$ 270
3.	LESS: Management Fee Charged to Plans	1/	56 467	13 738	7 420	5 494	29 815	140 206	32 287	32 003	25 826	-
	Officers' Salaries Charged to Plans	1/	14 947	3 637	1 963	1 454	7 893	23 168	13 597	5 303	4 268	-
4.	Balance		$ 720 938	$ 173 582	$ 93 227	$ 78 468	$ 375 661	$1020 293	$ 594 712	$ 230 592	$ 194 [illegible]	$ 270
5.	Profit Allowance Proposed (10% X Line 4)		72 094	17 358	9 323	7 847	37 566	102 029	59 471	23 059	19 472	27
6.	Officer's Salary Proposed	2/	15 300	3 722	2 010	1 489	8 079	22 900	13 440	5 242	4 218	-
7.	Redetermined Charges		$ 808 332	$ 194 662	$ 104 560	$ 87 804	$ 421 306	$1145 222	$ 667 623	$ 258 893	$ 218 409	$ [illegible]
8.	Overhead Ratio (%)		21.16					22.44				

1/ Excludes Overhead

2/ Based Upon Maximum Federal Insurance Contribution (FICA)

1/24/81

2. RENT vs OWNERSHIP ($ 13 022)

The finding under this item is accepted which, together with an adjusted overhead credit of $ 4 304, will be included with our Annual Accounting Statement for 1982 as a prior year adjustment (decrease).

Years	Direct Overcharge	Adjusted Overhead Charged	Total Overcharge
1976	$(772)	$(163)	$(935)
1977	(10 548)	(2 198)	(12 746)
1978	(1 702)	(1 943)	(3 645)
TOTALS	$(13 022)	$(4 304)	$(17 326)

EXHIBITS-C & Schedules-12:00R for 1976 thru 1978 (ENCLS. 4 & 5)

3. OFFICERS SALARIES ($ 75 522)

Our reply to your Informal Inquiry No. 11, dated 11/18/81 was in error; officers salaries should have been apportioned on the basis of the Direct Salaries Method which is acceptable under the principles of cost accounting adopted by this Agency as of 1974. This method not only relates management's dollars to those of production, but also maintains consistency - which is a fundamental requirement specified by the Federal Procurement Regulations.

In recognition of the above comment, officers salaries for 1980 were adjusted on the basis of Direct Salaries Ratios. This produced an undercharge of $30 946 which, together with an adjusted overhead credit credit of $ 22 424, will be included with our Annual Accounting Statement for 1982 as a prior year's adjustment of $ 8 522 (increase).

EXHIBIT -C & Schedule-12:00 for 1980 (ENCLS. 4 & 5)

JOSEPH E. JONES AGENCY

COMMENTS ON AUDIT REPORT NO. 82 - 003 - D, DATED MARCH 16, 1982

4. REAPPORTIONMENT ($ 9 978)

There is no way to determine from the audit report whether this finding is correct. Our computation produced an overcharge of $ 4 171 which will be included in our Annual Accounting Statement for 1982 as prior years' adjustments (decrease).

Years	Direct Reapportionment	Adjusted Overhead	Total (Over) Under Charge
1977	$(17 303)	$(3 605)	$(20 908)
1979	15 218	1 519	16 737
TOTALS	$(2 085)	$(2 086)	$(4 171)

EXHIBIT-C & Schedules-12:00 R for 1977 & 1979 (ENCLS. 4 & 5)

5. DEPRECIATION ($ 6 394)

The finding under this item is accepted which, together with an adjusted overhead credit of $ 1 332, will be included with our Annual Accounting Statement for 1982 as a prior year's adjustment (decrease).

Direct Overcharge	($ 6 394)
Adjusted Overhead	(1 332)
Total Overcharge	($ 7 726)

EXHIBIT-C & Schedule-12:00 for 1977 (ENCLS. 4 & 5)

6. RENT REAPPORTIONMENT ($ 3 404)

The finding under this item is accepted which, together with an adjusted overhead credit of $ 709, will be included with our Annual Accounting Statement for 1982 as a prior year adjustment (decrease).

Direct Overcharge	($ 3 404)
Adjusted Overhead	(709)
Total Overcharge	($ 4 113)

EXHIBIT-C & Schedule-12:00R for 1977 (ENCLS. 4 & 5)

7. LEGAL & ACCOUNTING $ 1 200

The finding under this item is accepted and, together with an adjusted charge for overhead of $ 120, will be included with our Annual Accounting Statement for 1982 as a prio year's adjustment (increase).

Direct Undercharge	$ 1 200
Adjusted Overhead	120
Total Undercharge	$ 1 320

EXHIBIT-C & Schedule-12:00R for 1979 (ENCLS. 4 & 5)

7a. POSTAGE $ 2 355

This item was introduced by your auditors but does not appear in the report; nevertheless, it will be included with our Annual Accounting Statement for 1982 as a prior year adjustment (increase).

Direct Undercharge	$ 2 355
Adjusted Overhead	(1 706)
Total Undercharge	$ 649

EXHIBIT-C & Schedule-12:00R for 1979 (ENCLS. 4 & 5)

COMMENTS ON AUDIT REPORT NO. 82 - 003 - D, DATED MARCH 16, 1982

8. INAPPROPRIATE OVERHEAD CHARGES

a. Rent Allocation (1978) ($ 908)

The finding under this item is accepted and was adjusted by reducing the total overhead, recomputing the overhead ratio and applying it to the total costs chargeable to each cost center (See ENCL. 5 for 1978).

b. Legal & Accounting Charges

The following findings under this sub-item are acceptable and will be treated in the same manner as Item 8a above:

(1) Accounting Fee (1977) ($ 2 650)

(2) Legal Fee (1978) ($ 1 950)

(3) Legal Fee (1979) (2 100)

(See ENCLS. 5 for 1977 the 1979)

NOTE: As stated under sub-item 8a the overhead adjustments are not shown separately because they are included in the total adjusted overhead for each year; i.e., $ 1 983 (1977); $ 1 529 (1978); $ 2 012 (1979).

JOSEPH E. JONES AGENCY

COMMENTS ON AUDIT REPORT NO. 82 - 003 - D, DATED MARCH 16, 1982

PRIOR YEARS' ADJUSTMENTS ALLOCATED ($ 22,845)
(Source: EXHIBIT-B)

Year	Original Costs	Adjusted Costs	Audit Adjustments	Allocation of Adjustments AFGE	AFSPA	GEHA	NAPFE
1976	791 702	790 767	(935)	(227)	(123)	(91)	(494)
1977	1 611 064	1 565 571	(45 493)	(6 442)	(2 875)	(2 384)	(33 792)
1978	855 158	851 513	(3 645)	(1 920)	(992)	(733)	-0-
1979	1 180 826	1 198 883	18 057	10 598	4 133	3 326	-0-
1980	1 785 489	1 794 660	9 171	5 466	2 063	1 642	-0-
	6 224 239	6 201 394	(22 845)	7 475	2 206	1 760	(34 286)

6/11/82

ENCLOSURE NO. 2 Sheet 1 of 1
6/11/82

JOSEPH E. JONES AGENCY

FEDERAL EMPLOYEES HEALTH BENEFITS PLANS (FEHBP)

COMMENTS ON AUDIT REPORT NO. 82 - 003 - D, DATED MARCH 16, 1982

ALLOCATION OF PRIOR YEARS' ADJUSTMENTS ($ 22 845)

Year	PARTICULARS	Total Costs	AFGE	AFSPA	GEHA	NAPFE
1976	Charged	791 702	190 829	102 454	85 476	412 943
	Chargeable	790 767	190 602	102 331	85 383	412 449
	Overcharges	(935)	(227)	(123)	(91)	(494)
	Adjusted Allocation Ratios	100%	24.33 %	13.14%	9.73%	52.80%
1977	Charged	1 611 064	199 812	89 159	83 291	1238802
	Chargeable	1 565 571	193 370	86 284	80 907	1205010
	Overcharges	(45 493)	(6 442)	(2 875)	(2 384)	(33 792)
	Adjusted Allocation Ratios	100%	14.16%	6.32%	5.24%	74.28%
1978	Charged	855 158	449 503	226 396	176 950	2 309
	Chargeable	851 513	447 583	225 404	176 217	2 309
	Overcharged	(3 645)	(1 920)	(992)	(733)	-0-
	Adjusted Allocation Ratios	100%	52.67%	27.21	20.12%	-0-
1979	Charged	1 180 826	689 080	267 345	224 131	270
	Chargeable	1 198 883	699 678	271 478	227 457	270
	Undercharged	18 057	10 598	4 133	3 326	-0-
	Adjusted Allocation Ratios	100%	58.69%	22.89%	18.42%	-
1980	Charged	1 785 489	1 054 383	401 254	329 638	214
	Chargeable	1 794 660	1 059 849	403 317	331 280	214
	Undercharged	9 171	5 466	2 063	1 642	-0-
	Adjusted Allocation Ratios	100%	59.60%	22.50%	17.90%	-
	TOTAL PRIOR YEARS' ADJUSTMENTS (Over) Under Charged	(22 845)	7 475	2 206	1 760	(34 286)

6/11/82

ENCLOSURE NO. 3 Sheet 1 of 1

COMMENTS ON THE U.S. OFFICE OF PERSONNEL MANAGEMENT's DRAFT OF AUDIT REPORT NO. E-003-D, DATED MARCH 16, 1982

STATEMENT OF OVER AND (UNDER) CHARGES
For the Calendar Years Ended December 31, 1976 thru 1980

SOURCE: Schedules 12:00-R

		1976	1977	1978	1979	1980	TOTALS
1. Management Fee							
2. Rent vs Ownership	DC	772	10 548	1 702	-0-	-0-	13 022
	OH	163	2 198	1 943	-0-	-0-	4 304
	T	935	12 746	3 645	-0-	-0-	17 326
3. Officers Salaries		-0-	-0-	-0-	-0-	(30 946)	(30 946)
	OH	-0-	-0-	-0-	-0-	22 424	22 424
	T	-0-	-0-	-0-	-0-	(8 522)	(8 522)
4. Reapportionment	DC	-0-	17 303	-0-	(15 218) 3/	-0-	2 085
	OH	-0-	3 605	-0-	(1 519)	-0-	2 086
	T	-0-	20 908	-0-	(16 737	-0-	4 171
5. Depreciation	DC	-0-	6 394	-0-	-0-	-0-	6 394
	OH	-0-	1 332	-0-	-0-	-0-	1 332
	T	-0-	7 726	-0-	-0-	-0-	7 726
6. Rent Reapportionment		-0-	3 404	-0-	-0-	-0-	3 404
	OH	-0-	709	-0-	-0-	-0-	709
	T	-0-	4 113	-0-	-0-	-0-	4 113
7. Legal & Accounting		-0-	-0-	-0-	(1 200)	-0-	(1 200)
	OH	-0-	-0-	-0-	(120)	-0-	(120)
	T	-0-	-0-	-0-	(1 320)	-0-	(1 320)
7a. Postage		-0-	-0-	-0-	-0-	(2 355)	(2 355)
	OH	-0-	-0-	-0-	-0-	1 706	1 706
	T	-0-	-0-	-0-	-0-	(649)	(649)
TOTAL DIRECT COSTS		772	37 648	1 702	(16 418)	(33 301)	(9 596)
8. Revised Overhead		163	5 861	414	(3 651)	(6 065)	(3 278)
9. Overhead Adjustments		-0-	1 983 1/	1 529 2/	2 012 4/	30 195	35 719
Total Overhead		163	7 844	1 943	(1 639)	24 130	32 441
TOTAL OVER (UNDER) CHARGED		935	45 493	3 645	(18 057)	(9 171)	22 845

1/ Adjusted Overhead of $ 2 650 for Legal & Accounting. (1977)
2/ Adjusted Overhead of $ 908 for Rent and $ 1 950 for Legal (1978) and Accounting.
3/ Includes $ 661 Reapportionment of $ 1 294 total adjustment of Depreciation. ($716 X 92.4503 % = $ 661).
4/ Includes adjustment to Overhead of Depreciation ($1 294), Legal and Accounting ($1 200 & $ 2 100).

ENCLOSURE 4. Sheet 1 of 1

DC = Direct & Apportioned Costs
OH = Overhead
T = Totals

ENCLOSURE-4, Sheet 1 of 1

United States
Office of
Personnel Management
Washington, D.C. 20415

In Reply Refer To
CNE

Your Reference

2/5/81

Mr. Joseph E. Jones, General Agent
Mutual of Omaha
1666 Connecticut Avenue, N.W.
Washington, DC 20009

Dear Mr. Jones:

For 1974 and 1975, our Office of Audits questioned the propriety of charging management fees as administrative expenses under the Federal Employees Health Benefits Program contracts with American Federation of Government Employees and American Foreign Service Protective Association, Inc. After review and discussion we have decided to accept the management fees for the two years in question as reasonable charges against the contracts.

Since it seems questionable to charge management fees as administrative expenses in the absense of a contractual arrangement for such charges, we suggest you enter into a service-type contract with Mutual of Omaha which would identify the services required of an administrator and the management fee(s) an administrator should reasonably expect to receive for providing the services.

We trust this information will assist you.

Sincerely yours,

Kevin J. Burns

Kevin J. Burns, Assistant Director
for Insurance Programs

To what year? This letter written re 74 & 75 audit.

cc: Mr. Kenneth Blaylock
Mr. E. Gregory Kryze
Mr. James L. Edwards
Mr. Irving Kator

ATTACH-6

CON 114-24-3
January 1980

J O S E P H   E.   J O N E S   A G E N C Y

FEDERAL EMPLOYEES HEALTH BENEFITS PLANS (FEHBP)

COMMENTS ON THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S DRAFT OF AUDIT REPORT NO. E-003-D, DATED MARCH 16, 1982

ADJUSTMENTS TO ADMINISTRATIVE COSTS

For the Calendar Year Ended December 31, 1976 Schedule - 12:00-R

					Group Claims Department			F E H B P		A U D I T	
	Particulars	Agency's Combined Costs	Overhead	Sales Dept	Total	Non-FEHBP	FEHBP	Direct Costs	Total Costs	Report Item No.	Inquiry No.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	Original Reapportionment Ratios				100.0000%	10.7963%	89.2049 %	-	-	-	-
2.	Revised Reapportionment Ratios				-	-	-	-	-	-	-
3.	Original Costs	1 712 128	298 998	680 844	730 280	78 843	651 437	2 006	653 443	-	-
4.	Applied Overhead		(298 998)	144 057	154 517	16 682	137 835	424	138 259		
5.	(21.15856%)										
6.	TOTALS	1 712 128	-0-	824 901	884 797	95 525	789 272	2 430	791 702		
7.	ADJUSTMENTS PER AUDIT:										
8.	Rent vs Ownership			772			(772)		(772)	2	B-6
9.	Overhead (21.15856)			163			(163)		(163)		
10.	TOTAL OVERCHARGE			935			(935)		(935)		
11.											
12.	BALANCE CHARGEABLE						788 337	2 430	790 767		

ENCLOSURE-5, SHEET 1 of 5 (1976)

(6/2/82)

JOSEPH E. JONES AGENCY
FEDERAL EMPLOYEES HEALTH BENEFITS PLANS (FEHBP)

COMMENTS ON THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S DRAFT OF AUDIT REPORT NO. E-003-D, DATED MARCH 16, 1982
ADJUSTMENTS TO ADMINISTRATIVE COSTS
For the Calendar Year Ended December 31, 1977

Schedule - 12:00-R

ENCLOSURE-5 Sheet 2 of 5 (1977)

	Particulars	Agency's Combined Costs	Overhead	Sales Dept	Group Claims Department			FEHBP		AUDIT	
					Total	Non-FEHBP	FEHBP	Direct Costs	Total Costs	Report Item No.	Inquiry No.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	Original Reapportionment Ratios				100.0000%	3.0000%	97.0000%	-			
2.	Revised Reapportionment Ratios				100.0000%	4.9539%	95.0461%	-	-		
3.	Original Costs	2 487 540	337 722	721 100	1 212 721	36 381	1 227 458	-	-	4	B -8
4.	Applied Overhead	-0-	(337 722)	113 280	190 510	5 715	192 825	164 879	1 392 337		
5.	(15.7093 %)							25 902	218 727		
6.	TOTALS	2 487 540	-0-	834 380	1 403 231	42 096	1 420 283	190 781	1 611 064		
7.	ADJUSTMENTS PER AUDIT:										
8.	Rent VS Ownership										
9.	Depreciation			10 548	-	-	(10 548)	-	(10 548)	2	B-5 & 6
10.	Rent			6 592	-	(198)	(6 394)	-	(6 394)	5	B-4
11.	Legal & Accounting		(2 650)	2 650		3 404	(3 404)	-	(3 404)	8a	B-7
12.	TOTAL ADJUSTMENTS	-0-	(2 650)	19 790	-	-	-	-	-	7&8	B-9
13.	Adjusted Original Costs				-	3 206	(20 346)	-	(20 346)		
14.	(Line 3 LESS 12)	2 487 540	335 072	740 890	1 212 721	39 587	1 207 112	164 879	1 371 991		
15.	REVISED COSTS AND REAPPORTIONMENTS (Adjusted)										
16.	Adjusted Costs	2 487 540	335 072	740 890	1 212 721	60 077	1 189 809	164 879	1 354 688		
17.	Applied Overhead - Revised										
18.	(15.5669 %)	-0-	(335 072)	115 334	188 783	9 352	185 216	25 667	210 883		
19.	TOTAL REVISED COSTS	2 487 540	-0-	856 224	1 401 504	69 429	1 375 025	190 546	1 565 571		
20.	REAPPORTIONMENT ADJUSTMENT (Line 3 LESS 16)	-			-0-	17 303	(17 303)	-	-		
21.	OVERCHARGES: Total Costs (Line 3 LESS 16)										
22.	Applied Overhead (Line 4 LESS 17).								37 649	4	B-8
23.	TOTAL								7 844		
									45 493		

J O S E P H   E.   J O N E S   A G E N C Y
FEDERAL EMPLOYEES HEALTH BENEFITS PLANS (FEHBP)

COMMENTS ON THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S DRAFT OF AUDIT REPORT NO. E-003-D, DATED MARCH 16, 1982
ADJUSTMENTS TO ADMINISTRATIVE COSTS
For the Calendar Year Ended December 31, 1978

Schedule - 12:00-R

				Group Claims Department			FEHBP		AUDIT	
Particulars	Agency's Combined Costs	Overhead	Sales Dept	Total	Non-FEHBP	FEHBP	Direct Costs	Total Costs	Report Item No.	Inquiry No.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1. Original Reapportionment Ratios				100.0000%	11.0000%	89.0000%	-	-		
2. Revised Reapportionment Ratios				-	-	-	-	-		
3. Original Costs	1 985 913	391 190	824 184	761 400	83 832	677 568	9 139	686 707		
4. Applied Overhead										
5. (24.5303%)	-0-	(391 190	202 175	186 774	20 565	166 209	2 241	168 450		
6. TOTALS	1 985 913	-0-	1 026 359	948174	104 397	843 777	11 380	855 157		
7. ADJUSTMENTS PER AUDIT:										
8. Rent vs Ownership			1 702	-	-	(1 702)	-	(1 702)	2	B-6
9. Rent		(908)	908	-	-	-	-	-	8a	B-7
10. Legal & Accounting		(1 950	1 950	-	-	-	-	-	8c	B-9 & 12
11. TOTAL ADJUSTMENTS	-0-	(2 858)	4 560	-	-	(1 702)	-	(1 702)		
12. ADJUSTED ORIGINAL COSTS										
13. Totals	1 985 913	388 332	828 744	761 400	83 832	675 866	9 139	685 005		
14. Applied Overhead - Revised										
15. (24.3075 %)	-0-	(388 332)	201 447	185 077	20 377	164 286	2 221	166 507		
16. TOTAL REVISED COSTS	1 985 913	-0-	1 030 191	946 477	104 209	840 152	11 360	851 512		
17. OVERCHARGES: Total Costs (Line 3 LESS 13)								1 702		
Applied Overhead (Line 4 LESS 14)								1 943		
TOTAL.								3 645		

ENCLOSURE-5, Sheet 3 of 5 (1978)

(6/2/82)

JOSEPH E. JONES AGENCY
FEDERAL EMPLOYEES HEALTH BENEFITS PLANS (FEHBP)

COMMENTS ON THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S DRAFT OF AUDIT REPORT NO. E-003-D, DATED MARCH 16, 1982
ADJUSTMENTS TO ADMINISTRATIVE COSTS
For the Calendar Year Ended December 31, 1979

Schedule - 12:00-R

	Particulars (1)	Agency's Combined Costs (2)	Overhead (3)	Sales Dept (4)	Group Claims Department: Total (5)	Group Claims Department: Non-FEHBP (6)	Group Claims Department: FEHBP (7)	FEHBP: Direct Costs (8)	FEHBP: Total Costs (9)	AUDIT: Report Item No. (10)	AUDIT: Inquiry No. (11)
1.	Original Reapportionment Ratios				100.0000%	9.0000%	91.0000%	-	-		
2.	Revised Reapportionment Ratios				100.0000%	7.5497%	92.4503	-	-		
3.	Original Costs	2 348 912	430 567	861 373	1 002 971	90 277	912 694	54 001	966 695	4	B-8
4.	Applied Overhead										
5.	(22.4447 %)	-0-	(430 567)	193 333	225 114	20 262	204 852	12 120	216 972		
6.	TOTALS	2 348 912	-0-	1 054 706	1 228 085	110 539	1 117 546	66 121	1 183 667		
7.	ADJUSTMENTS PER AUDIT:										
8.	Depreciation:										
	a. Per Audit	15 458	2 264	7 167	6 027	-	-	-	-		
	b. Per Books	14 164	1 995	6 858	5 311	-	-	-	-		
	c. Net Adjustment	1 294	269	309	716	-	-	-	-		
9.	Legal & Accounting	-	(1 200)	-	-	-	-	1 200	1 200	5	B-4
10.	Legal & Accounting	-	(2 100)	2 100	-	-	-	-	-	7	Agency
11.	TOTAL ADJUSTMENTS	1 294	(3 031)	2 409	716	-	-	1 200	1 200	8d	B-12
12.	ADJUSTED ORIGINAL COSTS*										
13.	(Line 3 (+)(-) 11)	2 350 206	427 536	863 782	1 003 687	75 775	927 912	55 201	983 113	4	B-8
14.	Applied Overhead - Revised										
15.	(22.2366 %)	-0-	(427 536)	192 076	223 185	16 849	206 336	12 275	218 611		
16.	TOTAL REVISED COSTS	2 350 206	-0-	1 055 858	1 226 872	92 624	1 134 248	67 476	1 201 724		
17.	* ADJUSTED REAPPORTIONMENT		-	-	(716)	14 502	15 218	-	15 218		
18.	UNDERCHARGE: Total Costs (Line 3 LESS 13)								(16 418)		
19.	Applied Overhead (Line 4 LESS 14)								(1 639)		
20.	TOTAL								(18 057)		

ENCLOSURE-5, Sheet 4 of 5 (1979)

(6/2/82)

FEDERAL EMPLOYEES HEALTH BENEFITS PLANS (FEHBP)

COMMENTS ON THE U.S. OFFICE OF PERSONNEL MANAGEMENT'S DRAFT OF AUDIT REPORT NO. E-003-D, DATED MARCH 16, 1982
ADJUSTMENTS TO ADMINISTRATIVE COSTS
For the Calendar Year Ended December 31, 1980

Schedule - 12:00-R

ENCLOSURE-5, Sheet 5 of 5

	Particulars (1)	Agency's Combined Costs (2)	Overhead (3)	Sales Dept (4)	Group Claims Department: Total (5)	Group Claims Department: Non-FEHBP (6)	Group Claims Department: FEHBP (7)	FEHBP: Direct Costs (8)	FEHBP: Total Costs (9)	AUDIT: Report Item No. (10)	AUDIT: Inquiry No. (11)
1.	Original Reapportionment Ratios				100.0000%	5.8079%	94.1921%	-	-		
2.	Revised Reapportionment Ratios				-	-	-	-	-		
3.	Original Costs	2 925 508	492 596	858 238	1 546 612	89 825	1 478 496	6 353	1 484 849		
4.	Applied Overhead	-0-	(492 596)	173 769	313 146	18 187	299 354	1 286	300 640		
5.	(20.2472%)										
6.	TOTALS	2 925 508	-0-	1 032 007	1 859 758	108 012	1 777 850	7 639	1 785 489		
7.	ADJUSTMENTS PER AUDIT:										
8.	Officers Salaries:										
9.	Charged	52 000	(52 000)								
10.	Chargeable *	(52 000)	10 148	8 998	32 854	1 908	30 946	-0-	30 946	3	B-11
11.	Postage										
12.	Charged				40 552	(2 355)	(38 197)	=0-	(38 197)		
13.	Chargeable				(40 552)	-0-	40 552	-0-	40 552		
14.	TOTALS	-0-	(41 852	8 998	32 854	(447	33 301	-0-	33 301		
15.	ADJUSTED ORIGINAL COSTS										
16.	(Line 3 (+)(-) 14)	2 925 508	450 744	867 236	1 579 466	89 378	1 511 797	6 353	1 518 150		
17.	Applied Overhead - Revised										
18.	(18.2136 %)	-0-	(450 744	157 955	287 678	16 279	275 353	1 157	276 510		
19.	TOTAL REVISED COSTS	2 925 508	-0-	1 025 191	1 867 144	105 657	1 787 150	7 510	1 794 660		
20.	UNDERCHARGED: Total Costs (Line 3 LESS 16)								(33 301)		
21.	Applied Overhead (Line 4 LESS 17)								24 130		
22.	TOTAL								9 171		

*/ Distributed on Direct Salaries and Reapportionment Ratios; i.e.
Direct Salaries 19.515% 17.305% 63.180%
Reapportionments (See line 2 above.

(6/2/82)

Amendment to Contract (No. CS 1065)

between the

Government Employees Health Association, Inc.

and the

United States Office of Personnel Management

The contract which became effective July 1, 1960, by and between the Government Employees Health Association, Inc. and the United States Civil Service Commission is hereby amended, effective January 1, 1979, to read as stated on the following pages.

Pursuant to Public Law 95-454 and Reorganization Plan No. 2 of 1978, whereby the functions of the United States Civil Service Commission are transferred to the Director of the United States Office of Personnel Management, references to the United States Civil Service Commission are superseded by reference to the United States Office of Personnel Management, the successor contracting entity.

The Government Employees Health Association, Inc. hereby certifies that it is in compliance with the wage and price standards announced by the President on October 24, 1978. If it is later determined that the Government Employees Health Association, Inc. was in fact not in compliance as of the date of this action, and knew or should have known that it was not in compliance, then this contract may be terminated.

Approved For Release 2006/02/10 : CIA-RDP86-00964R000200090001-6

INDEX

Contract No. CS 1065

Health Benefits Contract

between

Government Employees Health Association, Inc.

and the

United States Office of Personnel Management

In consideration of the mutual agreements of the Government Employees Health Association, Inc. (herein called the Carrier) and the United States Office of Personnel Management (herein called OPM) and in consideration of the payment of subscription charges as provided by this contract, the Carrier and OPM agree as follows:

ARTICLE I - GENERAL PROVISIONS

Section 1.1 <u>Incorporation of Law and Regulations</u>

(a) The applicable provisions of: (1) Chapter 89 of Title 5, United States Code; (2) OPM's regulations as contained in Part 890 of Title 5 of the Code of Federal Regulations; and (3) the Federal Procurement Regulations as contained in Chapter 1 of Title 41 of the Code of Federal Regulations [(2) and (3) hereinafter being called Regulations] constitute a part of this contract as if fully set forth herein, and the other provisions of this contract shall be construed so as to comply therewith.

(b) If the Regulations are changed in a manner which would increase the Carrier's liability under this contract, the change will be made effective for a contract period subsequent to the period in which the amendment to the Regulations is published, unless the Carrier agrees to an earlier date.

Section 1.2 Persons Eligible

(a) The Plan is an employee organization plan, as defined in Chapter 89 of Title 5, United States Code, sponsored by the Carrier and available only to eligible employees and annuitants (and members of their families) who at the time of their enrollment are members of the sponsoring organization.

(b) The Carrier will promptly return to the employing office marked "non-member" each Health Benefits Registration Form received by it bearing the name of a registrant who on the effective date of enrollment is not a member of the employee organization.

(c) Employees enrolled in the Plan at the time they become annuitants may retain their membership in the organization and continue their enrollment in the Plan. Survivor annuitants of enrollees in the Plan may continue their enrollment in the Plan without becoming members of the sponsoring employee organization.

Section 1.3 Conversion Policy

The Carrier will maintain on file with OPM copies of the conversion plan(s) offered to persons whose coverage under this contract terminates and advise OPM promptly of any changes in the plan(s).

Section 1.4 Charter, Constitution, and By-Laws

The Carrier will notify OPM of any change in its charter, constitution, or by-laws which affects any provision of this contract or the Carrier's participation in the Federal Employees Health Benefits Program.

Section 1.5 Statistics

(a) General. To enable OPM to carry out its functions under Section 1308 and Chapter 89 of Title 5, United States Code, the Carrier will maintain or cause to be maintained the statistical records and will furnish OPM, in the form prescribed by OPM, the statistical reports with respect to the Carrier's operations under this contract, agreed upon between the Carrier and OPM by exchange of correspondence.

(b) Special Studies. The Carrier will furnish such other reasonable statistical data and reports of special studies as OPM, after consultation with the Carrier, may from time to time request for the purpose of carrying out its functions under Chapter 89 of Title 5, United States Code.

ARTICLE II - BENEFITS

Section 2.1 Benefits

The Carrier will provide benefits for covered persons as set forth in the policy, as amended, issued to the Carrier by the Mutual of Omaha Insurance Company, Omaha, Nebraska (herein called Underwriter), a copy of which is attached hereto and made a part hereof.

Section 2.2 Underwriter

The Carrier will not modify or terminate the policy issued by the Underwriter of the Plan or give notice of termination or intent not to renew the policy without prior express approval of OPM.

Section 2.3 Filing of Claims

Procedures for filing claims for benefits under the Plan are set forth in the brochure for the Plan issued by OPM.

Section 2.4 Claims Requirements

Provisions with respect to legal proceedings and notice and proof of claims are set forth in the policy issued by the Underwriter.

ARTICLE III - PREMIUMS AND ACCOUNTING

Section 3.1 Premiums

(a) OPM will, subject to adjustment for error or fraud, pay to the Underwriter, in payment of its total subscription charges under this contract for all covered persons, the enrollment charges for the Plan received by the Employees Health Benefits Fund (herein called the Fund), less the amounts set aside by OPM for the Contingency Reserve and for administrative expenses of the Carrier and OPM, plus any payments made by OPM from the Contingency Reserve. OPM will pay over to the Carrier for administrative expenses the amount set forth in Section 3.5, but any funds not actually needed for incurred administrative expenses of the Carrier shall be credited to the Special Reserve.

(b) Biweekly subscription charges, with appropriate adjustments for employees and annuitants paid on other than a biweekly basis, are as follows:

Self Only	$16.20
Self and Family	$46.38

1/79

Section 3.2 Annual Accounting

The Carrier will maintain financial records under generally accepted accounting principles and, not later than ninety days after the end of each contract term, furnish to OPM for that contract term an accounting of its operations under the contract. The accounting shall be in the form prescribed by OPM and shall include, among other things, the following items with respect to each option, if there be two options, provided by the contract:

(a) The subscription charges received and accrued (including those received from the Contingency Reserve);

(b) The health benefits charges specified in Section 3.4;

(c) The expenses and other charges specified in Section 3.5;

(d) The income on investments;

(e) The algebraic sum of items (a) minus (b) minus (c) plus (d).

Section 3.3 Special Reserve

(a) This contract is experience rated. The gain [item (e) in Section 3.2] on operations under this contract, cumulatively from its effective date to any later date, constitutes the Special Reserve held by the Carrier to be used only for payment of charges against this contract.

(b) If this contract is discontinued and there is a positive balance remaining in the Special Reserve after all health benefits charges plus the agreed-upon amount of administrative expenses for contract liquidation have been paid, such balance, including current income on its investment, shall be paid to OPM for credit to the Fund within two years from the date this contract is discontinued.

1/79

(c) In the event this contract is discontinued, the Contingency Reserve of the Plan may be used to pay necessary and proper charges against this contract to the extent that the reserves held by the Carrier are insufficient for this purpose.

Section 3.4 <u>Health Benefits Charges</u>

(a) The amount of charges for item (b) in Section 3.2 will be (1) the paid charges, and (2) the accrued charges equitably and reasonably determined on the basis of experience under this contract.

(b) Only benefits to which the covered person is entitled under this contract will be charged. However, benefits paid because of administrative practices regularly followed or because of administrative liberalizations or interpretations approved by OPM will be charged. Benefit payments made erroneously but in good faith are also chargeable to this contract providing reasonably diligent efforts to recover are unsuccessful.

Section 3.5 <u>Expenses and Other Charges</u>

The amount of expenses and charges to be included in item (c) of Section 3.2 shall be as set out in the schedule below.

Item	Amount
(i) Administrative Charges Organization	2.5% of total subscription charges plus an amount not to exceed $7,000 for the contract term in lieu of actual incurred expenses.
(ii) Administrative Charges Underwriter	Actual, but not to exceed 2.5% of total subscription charges for the contract term.
(iii) Taxes	Actual
(iv) Service Charge	$69,300 for the contract term.

"Administrative Charges" means the amount of expenses incurred in the administration of this contract including, but not limited to, the cost of maintaining the eligibility files for coverage under this contract, the cost of investigation and settlement of claims under this contract, and the cost of making accounting and statistical reports. Administrative expenses allocated to this contract will be actual, necessary, incurred expenses determined on an equitable and reasonable basis, with proper justification and accounting support. The Federal Procurement Regulations, 41 CFR, Part 1-15, shall apply in the determination of acceptable administrative expenses. On the basis of audit, OPM may direct that adjustments not inconsistent with the above regulations be made and that they be recorded in subsequent contract term Accounting Statements.

"Taxes" means all Governmental fees and taxes which are directly attributable to this contract.

In order to avoid possible subsequent disallowance or dispute based on unreasonableness or nonallocability, the Carrier may request advance agreement with OPM as to the treatment to be accorded special or unusual cost items totalling over $50,000. Advance agreements may be negotiated either before or during a contract but cannot be negotiated after incurrence of such special or unusual cost. The agreement must be in writing, shall be executed by both contracting parties, and shall not be inconsistent with other applicable provisions of the Federal Procurement Regulations.

Section 3.6 Income on Investments

All funds on hand, including the Special Reserve and current subscription charges received from OPM, which are in excess of the amounts needed to make prompt payments under this contract, shall be prudently invested. The amounts held to make prompt payments shall be the minimum amounts consistent with the sound operation of the plan.

Section 3.7 Interim Accounting

The Carrier will furnish, upon request of OPM, such other reasonable financial reports with respect to operations under this contract as are necessary to enable OPM to carry out its functions under Chapter 89 of Title 5, United States Code.

Section 3.8 Examination of Records

The Carrier will permit OPM and the General Accounting Office to examine such records of the Carrier as may be necessary to carry out the purposes of Chapter 89 of Title 5, United States Code. The Carrier will preserve records relating to a contract period for three years after the close of the contract period to which the records relate.

Section 3.9 Disputes

(a) Except as otherwise provided in this contract, any dispute concerning a question of fact arising under this contract, which is not disposed of by agreement, shall be decided by the Deputy Associate Director for Benefits Policy, Compensation who shall reduce his decision to writing and mail or otherwise furnish a copy to the Carrier. The decision of the Deputy Associate Director shall be final and conclusive,

1/79

unless within 60 days from the date of receipt of this copy the Carrier mails or otherwise furnishes to the Deputy Associate Director a written appeal addressed to the Director, Office of Personnel Management with a copy mailed or otherwise furnished to OPM's designated contracts disputes appeals authority, the Armed Services Board of Contract Appeals. The decision of the ASBCA shall be final and conclusive, unless determined by a court of competent jurisdiction to have been fraudulent, or capricious, or arbitrary, or so grossly erroneous as to necessarily imply bad faith, or not supported by substantial evidence. In connection with any special proceeding under this Section, the Carrier shall be afforded an opportunity to be heard and to offer evidence in support of its appeal. Pending final decision of a dispute hereunder, the Carrier shall proceed diligently with the performance of the contract in accordance with the Deputy Associate Director's decision.

(b) This "Disputes" clause does not preclude consideration of law questions in connection with decisions provided for in paragraph (a) above: Provided, That nothing in this contract shall be construed as making final the decision of any administrative official, representative, or board on a question of law.

ARTICLE IV - EQUAL EMPLOYMENT OPPORTUNITY

Section 4.1 Equal Employment Opportunity

During the performance of this contract, the Carrier agrees as follows:

(a) The Carrier will not discriminate against any employee or applicant for employment because of race, color, religion, sex or national origin. The Carrier will take affirmative action to ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship. The Carrier agrees to post in conspicuous places, available to employees and applicants for employment, notices to be provided by OPM setting forth the provisions of this nondiscrimination clause.

(b) The Carrier will, in all solicitations or advertisements for employees placed by or on behalf of the Carrier, state that all qualified applicants will receive consideration for employment without regard to race, color, religion, sex or national origin.

(c) The Carrier will send to each labor union or representative of workers with which it has a collective bargaining agreement or other contract or understanding, a notice, to be provided by OPM, advising the said labor union or workers' representative of the Carrier's commitments under this section, and shall post copies of the notice in conspicuous places available to employees and applicants for employment.

(d) The Carrier will comply with all provisions of Executive Order No. 11246 of September 24, 1965, and of the rules, regulations and relevant orders of the Secretary of Labor.

(e) The Carrier will furnish all information and reports required by Executive Order No. 11246 of September 24, 1965, and by the rules, regulations, and orders of the Secretary of Labor, or pursuant thereto, and will permit access to its books, records, and accounts by OPM and the Secretary of Labor for purposes of investigation to ascertain compliance with such rules, regulations and orders.

(f) In the event of the Carrier's noncompliance with the nondiscrimination clauses of this contract or with any of the said rules, regulations, or orders, this contract may be cancelled, terminated, or suspended, in whole or in part, and the Carrier may be declared ineligible for further Government contracts in accordance with procedures authorized in Executive Order No. 11246 of September 24, 1965, and such other sanctions may be imposed and remedies invoked as provided in the said Executive Order or by rules, regulations, or orders of the Secretary of Labor, or as otherwise provided by law.

(g) The Carrier will include the provisions of paragraphs (a) through (g) in every subcontract or purchase order unless exempted by rules, regulations, or orders of the Secretary of Labor issued pursuant to Section 204 of Executive Order No. 11246 of September 24, 1965, so that such provisions will be binding upon each subcontractor or vendor. The Carrier will take such action with respect to any subcontract or purchase order as OPM may direct as a means of enforcing such provisions, including sanctions for noncompliance: Provided, however, that in the event the Carrier becomes involved in, or is threatened with, litigation with a subcontractor or vendor as a result of such direction by OPM, the Carrier may request the United States to enter into such litigation to protect the interests of the United States.

ARTICLE V - EMPLOYMENT OF THE HANDICAPPED

Section 5.1 Employment of the Handicapped

During the performance of this contract, the Carrier agrees as follows:

(a) The Carrier will not discriminate against any employee or applicant for employment because of physical or mental handicap in regard to any position for which the employee or applicant for employment is qualified. The Carrier agrees to take affirmative action to employ, advance in employment and otherwise treat qualified handicapped individuals without discrimination based upon their physical or mental handicap in all employment practices such as the following: employment, upgrading, demotion or transfer; recruitment, advertising, layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship.

(b) The Carrier agrees to comply with the rules, regulations, and relevant orders of the Secretary of Labor issued pursuant to the Rehabilitation Act of 1973.

(c) In the event of the Carrier's noncompliance with the requirements of this clause, actions for noncompliance may be taken in accordance with the rules, regulations and relevant orders of the Secretary of Labor issued pursuant to the Act.

(d) The Carrier agrees to post in conspicuous places, available to employees and applicants for employment, notices in a form to be prescribed by the Director of the Office of Federal Contract Compliance Programs, provided by or through the contracting officer. Such notices shall state the Carrier's obligation under the law to take affirmative action to employ and advance in employment qualified handicapped employees and applicants for employment, and the rights of applicants and employees.

(e) The Carrier will notify each labor union or representative of workers with which it has a collective bargaining agreement or other contract understanding, that the Carrier is bound by the terms of Section 503 of the Rehabilitation Act of 1973, and is committed to take affirmative action to employ and advance in employment physically and mentally handicapped individuals.

(f) The Carrier will include the provisions of this clause in every subcontract or purchase order of $2,500 or more unless exempted by rules, regulations, or orders of the Secretary issued pursuant to Section 503 of the Act, so that such provisions will be binding upon each subcontractor or vendor. The Carrier will take such action with respect to any subcontract or purchase order as the Director of the Office of Federal Contract Compliance Programs may direct to enforce such provisions, including action for noncompliance.

ARTICLE VI - MODIFICATION AND TERMINATION OF CONTRACT

Section 6.1 Annual Renewal and Termination

This contract, in its original form, became effective July 1, 1960. It renews automatically for one year each January first, unless terminated by written notice given by OPM or Carrier not less than sixty calendar days before the renewal date, or unless modified by mutual agreement. This contract may be terminated by order of OPM pursuant to Section 890.205 of the Regulations.

Section 6.2 Effective Date of Termination

In the event this contract is terminated as of a date other than the end of an enrolled employee's or annuitant's then current pay period, the effective date of termination as to that employee or annuitant is deferred to the end of such pay period. The Carrier is entitled to receive all subscription charges due for the period of time such coverage is provided.

ARTICLE VII - PRIVACY

Section 7.1 Disclosure of Information

The Carrier agrees to use the personal data on employees and annuitants which is provided it by agencies and OPM, including social security numbers, for only those routine uses stipulated for such data and published annually in the Federal Register as a part of OPM's notice of systems of records.

1/79

United States of America
Office of Personnel Management

Washington, D.C. 20415

In Reply Refer To: CNE

Your Reference:

STAT [redacted]

STAT [redacted]

Enclosed for your records is Contract (No. CS 1065) between your organization and the Office of Personnel Management, to be effective January 1, 1980.

The contract was executed for OPM on March 6, 1980.

Sincerely yours,

George M. MacWhorter

George M. MacWhorter, Chief
Employee Organization Plans Division
Insurance Programs

Enclosure

cc: Mr. Louis Hendrickx
Mr. Norman C. Conway

Approved For Release 2006/02/10 : CIA-RDP86-00964R000200090001-6

CON 114-24-3
January 1979

Amendment to Contract (No. CS 1065)

between the

Government Employees Health Association, Inc.

and the

United States Office of Personnel Management

The contract which became effective July 1, 1960, is hereby amended as of January 1, 1980, as follows:

1. Section 3.9 is deleted and the following is inserted in lieu thereof:

Section 3.9 Disputes

(a) This contract is subject to the Contract Disputes Act of 1978 (41 U.S.C. 601, et seq.). If a dispute arises relating to the contract, the contractor may submit a claim to the Contracting Officer who shall issue a written decision on the dispute in the manner specified in DAR 1-314 (FPR 1-1.318).

(b) "Claim" means:
(1) a written request submitted to the Contracting Officer;
(2) for payment of money, adjustment of contract terms, or other relief;
(3) which is in dispute or remains unresolved after a reasonable time for its review and disposition by the Government; and
(4) for which a Contracting Officer's decision is demanded.

(c) In the case of disputed requests or amendments to such requests for payment exceeding $50,000, or with any amendment causing the total request in dispute to exceed $50,000, the Contractor shall certify, at the time of submission as a claim, as follows:

I certify that the claim is made in good faith, that the supporting data are accurate and complete to the best of my knowledge and belief; and that the amount requested accurately reflects the contract adjustment for which the contractor believes the Government is liable.

(Contractor's Name) ______________________________

(Title) ______________________________

(d) The Government shall pay the contractor interest:
(1) on the amount found due on claims submitted under this clause;
(2) at the rates fixed by the Secretary of the Treasury, under the Renegotiation Act, Public Law 92-41;
(3) from the date the Contracting Officer receives the claim, until the Government makes payment.

(e) The decision of the Contracting Officer shall be final and conclusive and not subject to review by any forum, tribunal, or Government agency unless an appeal or action is timely commenced within the times specified by the Contract Disputes Act of 1978.

(f) The Contractor shall proceed diligently with performance of this contract, pending final resolution of any request for relief, claim, appeal or action related to the contract, and comply with any decision of the Contracting Officer.

2. The biweekly subscription charges shown in Section 3.1 of Article III shall be deleted and the following subscription charges shall be substituted:

Self Only	$17.29
Self and Family	$49.46

3. The Premium Adjustment Rider herewith attached, effective January 1, 1980, is added to Policy No. GMG 1799.

STAT

Office of Personnel Management

By: William R Brown
(Name)

Assistant Director for Insurance Programs
(Title)

ABP Master File (GMG 1799)
L.

United States
Office of Personnel Management
Washington, D.C. 20415

MAY - 1 1981

In Reply Refer To: CNE

Your Reference:

STAT

STAT

Enclosed for your records is a copy of an amendment to contract (No. CS 1065) between the Government Employees Health Association and the Office of Personnel Management, to be effective January 1, 1981.

The amendment was signed for OPM on April 27, 1981.

Sincerely yours,

George M. MacWhorter

George M. MacWhorter, Chief
Employee Organization Plans Division
Insurance Programs

Enclosure
cc: Mr. Norman Conway
Mr. Louis Hendrickx

CON 114-24-3
January 1980

Amendment to Contract (No. CS 1065)

between the

Government Employees Health Association, Inc.

and the

United States Office of Personnel Management

The contract which became effective July 1, 1960, is hereby amended as of January 1, 1981, as follows:

1. The following is added as Section 2.5:

Section 2.5 Incorporation of Guidelines on Coordination of Benefits

The Coordination of Benefits Guidelines, Model Regulation Service - January, 1977, prepared by the National Association of Insurance Commissioners constitute a part of this contract as if fully set forth herein, and the other provisions of this contract shall be construed so as to comply therewith.

2. Section 3.9 is deleted and the following is inserted in lieu thereof:

Section 3.9 Disputes

(a) This contract is subject to the Contract Disputes Act of 1978 (Pub. L. 95-563).

(b) Except as provided in the Act, all disputes arising under or relating to this contract shall be resolved in accordance with this clause.

(c)(i) As used herein, "claim" means a written demand or assertion by one of the parties seeking, as a legal right, the payment of money, adjustment or interpretation of contract terms, or other relief, arising under or relating to this contract.

(ii) A voucher, invoice, or request for payment that is not in dispute when submitted is not a claim for the purposes of the Act. However, where such submission is subsequently not acted upon in a reasonable time, or disputed either as to liability or amount, it may be converted to a claim pursuant to the Act.

Approved For Release 2006/02/10 : CIA-RDP86-00964R000200090001-6

(iii) A claim by the Carrier shall be made in writing and submitted to the Assistant Director of Insurance Programs, Compensation Group, United States Office of Personnel Management (hereinafter referred to as the "Contracting Officer") for decision. A claim by the Government against the Carrier shall be subject to a decision by the Contracting Officer.

(d) For Carrier claims of more than $50,000, the Carrier shall submit with the claim a certification that the claim is made in good faith; the supporting data are accurate and complete to the best of the Carrier's knowledge and belief; and the amount requested accurately reflects the contract adjustment for which the Carrier believes the Government is liable. The certification shall be executed by an authorized official of the Carrier.

(e) For Carrier claims of $50,000 or less, the Contracting Officer must render a decision within 60 days. For Carrier claims in excess of $50,000, the Contracting Officer must decide the claim within 60 days or notify the Carrier of the date when the decision will be made.

(f) The Contracting Officer's decision shall be final unless the Carrier appeals or files a suit as provided in the Act. Pursuant to 5 CFR Section 890.107, OPM has designated the Armed Services Board of Contract Appeals to hear appeals under this provision.

(g) The authority of the Contracting Officer under the Act does not extend to claims or disputes which by statute or regulation other agencies are expressly authorized to decide.

(h) Interest on the amount found due on a Carrier claim shall be paid from the date the claim is received by the Contracting Officer until the date of payment.

(i) Except as the parties may otherwise agree, pending final resolution of a claim by the Carrier arising under the contract, the Carrier shall proceed diligently with the performance of the contract in accordance with the Contracting Officer's decision.

3. The biweekly subscription charges shown in Section 3.1 of Article III shall be deleted and the following subscription charges shall be substituted:

Self Only	$19.13
Self and Family	$53.97

4. The Adjustment Rider herewith attached, effective January 1, 1981, is added to Policy No. GMG 1799. STAT

Accepted at Washington, D. C., this 27th

day of April, 1981.

Office of Personnel Management

By: Lewis J. Burns
(Name)

Assistant Director for Insurance Programs
(Title)

United States
Office of
Personnel Management

Washington, D.C. 20415

In Reply Refer To: | Your Reference:

JUN 4 1982

STAT [redacted]

STAT [redacted]

Enclosed are three copies of an amendment to Contract (No. CS 1065) between the Government Employees Health Association, Inc. and the United States Office of Personnel Management, to be effective January 1, 1982.

All 1982 contract amendments previously sent for your signature and returned to us have been voided. We have been advised by our Office of General Counsel to reword the 1982 contract amendments, under Article I - General Provisions - Section 1.1, Incorporation of Law and Regulations, to incorporate Chapter 16 of Title 41 of the Code of Federal Regulations. The remainder of the 1982 contract amendments, as previously written, is unchanged.

Chapter 16 of Title 41 of the Code of Federal Regulations, and those regulations contained in Chapter 1 of Title 41 of the Code of Federal Regulations which are made applicable by Chapter 16 will be incorporated by reference into all health benefits contracts for 1982. We are doing this even though we recognize certain provisions contained in Chapter 16 relating to negotiation and pricing of contracts were not adhered to during benefit and rate negotiations and, therefore, will not apply to 1982 contracts, but will apply to 1983 contracts. The provisions of Chapter 16 that do not apply to 1982 contracts are as follows:

16-3.807-4	Certificate of current cost or pricing data.
16-3.807-5	Defective cost or pricing data.
16-3.807-6	Refusal to provide cost or pricing data.
16-3.807-7	Unacceptable substitutes for pricing negotiations
16-3.807-8	Evaluation and pricing of individual contracts.
16-3.807-10	Subcontracting considerations in cost analysis.
16-3.807-50	Certificate of community rating.

The clauses set forth in Chapter 16 that do not apply to 1982 contracts are:

16-3.814-50	Price reduction for defective certificate of community rating.
16-7.503-1	Price reduction for defective cost or pricing data.

If the amendment meets with your approval, please sign two copies and return them to us as soon as possible. After we have received the signed copies, the amendment will be executed for OPM and one completed copy will be returned to you.

Sincerely yours,

George M. MacWhorter, Chief
Employee Organization Plans Division
Insurance Programs

Enclosures

STAT

Approved For Release 2006/02/10 : CIA-RDP86-00964R000200090001-6

United States
Office of
Personnel Management

Washington, D.C. 20415

In Reply Refer To: CNE

Your Reference:

FEB 10 1983

STAT [redacted]

STAT [redacted]

Enclosed for your records is a copy of an amendment to Contract (No. CS 1065) between the Government Employees Hospital Association and the United States Office of Personnel Management, to be effective January 1, 1982.

The contract was signed for OPM on February 3, 1983.

Sincerely yours,

George B. Bower, Chief
Employee Organization Plans Division
Insurance Programs

Enclosure

STAT [redacted]

Approved For Release 2006/02/10 : CIA-RDP86-00964R000200090001-6

CON 114-25-1
January 1980

Amendment to Contract (No. CS 1065)

between the

Government Employees Health Association, Inc.

and the

United States Office of Personnel Management

The contract which became effective July 1, 1960, is hereby amended as of January 1, 1982, as follows:

1. Section 1.1 (a) is reworded to incorporate the Federal Procurement Regulations as contained in Chapter 16 of Title 41 of the Code of Federal Regulations.

Section 1.1 Incorporation of Law and Regulations

(a) The applicable provisions of : (1) Chapter 89 of Title 5, United States Code; (2) OPM's regulations as contained in Part 890 of Title 5 of the Code of Federal Regulations; and (3) regulations as contained in Chapter 16 of Title 41 of the Code of Federal Regulations, and those regulations contained in Chapter 1 of Title 41 of the Code of Federal Regulations which are made applicable by Chapter 16 [(2) and (3) hereinafter being called Regulations] constitute a part of this contract as if fully set forth herein, and the other provisions of this contract shall be construed so as to comply therewith.

2. The biweekly subscription charges shown in Section 3.1 of Article III shall be deleted and the following subscription charges shall be substituted:

Self Only	$26.32
Self and Family	$67.61

3. Section 3.3 (c) of Article III is reworded as follows:

Section 3.3 Special Reserve

(c) In the event this contract is discontinued, the Contingency Reserve of the Plan shall be used to pay necessary and proper charges against this contract to the extent that the reserves held by the Carrier are insufficient for this purpose.

4. The Adjustment Rider herewith attached, effective January 1, 1982, is added to Policy No. GMG 1799.

STAT

Accepted at Washington, D.C., this 3rd day

of February, 1983.

United States Office
of Personnel Management

By: Kevin J. Burns
(Name)

Assistant Director for Insurance Programs
(Title)

United States
Office of
Personnel Management Washington, D.C. 20415

Your Reference:

CNE

STAT [redacted]

STAT [redacted]

Enclosed for your records is a copy of an amendment to contract (No. CS 1065) between the Government Employees Health Association, Inc., and the Office of Personnel Management, to be effective January 1, 1980.

The amendment was signed for OPM on September 9, 1981.

Sincerely yours,

for George M. MacWhorter, Chief
Employee Organization Plans Division
Insurance Programs

Enclosure

STAT [redacted]

Amendment to Contract (No. CS 1065)

between the

Government Employees Health Association, Inc.

and the

United States Office of Personnel Management

The contract which became effective July 1, 1960, between the above-named parties, is hereby amended effective January 1, 1980, by increasing the amount of the administrative charges level specified in Section 3.5 (ii) from 2.5% to 4.0% of total subscription charges.

STAT

Accepted at Washington, D.C., this 9th

day of September, 1981.

United States Office of Personnel Management

By: Kevin J. Burns
(Name)

Assistant Director for Insurance Programs
(Title)